

Challenge

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from the editor

a personal note

■ AFTER 30 DAYS, seven countries and 500 interviews (some admittedly short conversations in public conveyances, restaurants, terminals), I think I understand our West European friends in a way that would not have been otherwise possible. Today they are our friends. Before the summit, they were only allies.

With one blow the Soviet leader convinced the European man in the street that the U.S. is a trustworthy and able leader of the West—and this in spite of the unfortunate U-2 affair and in spite of an almost universal lack of understanding of what the so-called American way of life really is.

It was revealing that *before* the summit meeting, informed and not-so-informed Europeans alike had a blasé attitude toward what the Paris conclave might achieve. The reaction to the descent from the summit, however, was overwhelmingly friendly toward American intentions (if not to tactics), and just as overwhelmingly distrustful of both Russian intentions and tactics.

The whys and wherefores of the summit failure can be better answered some months from now; but today's fact is the unusual people-to-people consensus in the West as regards the Russian problem. Consequently, it should be of more than passing interest to Americans to measure the Europe of 1960 and the physical and psychological tools the average European has to defend

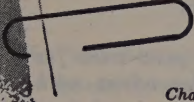
himself and the West, if need be.

Western Europe is making enormous and relatively rapid physical progress. One sees this everywhere—in the shops, in the homes, on the roads and in the people themselves. The number of new branch banks opening up in even the smaller hamlets is truly eye-popping. This kind of progress seems general throughout the Continent and Great Britain, and it is difficult to say that one country seems to be much better off than any other.

Yet, in spite of Milan's skyscrapers, the high fashion of London's Bond Street, the neon-laden shops of the Champs Elysées and the obvious opulence of the Swiss cantons (just as obvious in Brussels, Amsterdam and West Berlin), one comes away still unconvinced of the psychological unity of this new Europe and especially of the rapport with the "American way" that the "European way" is likely to achieve.

Each country has its own set of historical images, political dynamics, and economic ideas and ideals, and in these respects the united Europe that Americans would like to see is as far from reality as ever. And in the one area where Americans believe substantial progress has been made—economic integration—I fear that the cartelization of the European economy is now irrefutable. Free enterprise has no meaning.

In these circumstances, it would seem that the ideological unity of the West is not very substantial and, therefore, the Western position vis-à-vis the East is really built on the old geopolitical platform rather than on anything as lofty as the clear-cut difference between Western and Eastern ways of doing things.—H. B.



letters TO THE EDITOR

Challenge invites your comments. Address letters to
CHALLENGE, 475 Fifth Avenue, New York 17, N. Y.

Proxy vote

•“Managing the Managers” [May, 1960], mentioned the fact that we are not successfully controlling the managers of industry, labor unions and government by exercising our democratic voting rights.

One reason stockholders seem to vote against their own best interests is because today's stockholder is most often one who owns only a few shares in the company and has little faith in his own judgment of the company's affairs—as long as he is satisfied with the return on his investment. Another factor is the descriptive material sent with proxy cards. Frequently, the only simple and clear information is contained in the paragraphs devoted to why the stockholder should vote for the measures favored by management—and with good reason: management, after all, writes the material. Only the experienced stockholder with the patience necessary to weigh every paragraph of the report is able to determine whether the management's proposal should be adopted.

At “proxy time” the investor receives material from each company in which he owns stock. Since he usually is a shareholder in several companies, he rarely has the time to

wade through all the material sent him—he just signs the proxy and mails it back to the management. Perhaps information would help.

JAMES L. HARVEY

New York, N.Y.

New products

•Your article on the consumer and the marketing system [“What Does the Consumer Get?,” May, 1960] concludes that most consumers are getting what they want in terms of modern convenience, appealing products and psychological satisfaction. The author specifies that 20 years ago cake mixes, frozen dinners, instant coffee, etc., were unknown, but that today consumers demand that the whole gamut of brands be attractively displayed in spacious, well-lighted emporiums. If such considerations console most Americans for the fact that their personal food preferences are being dictated by the technicians who concoct the frozen dinners (determining the proper texture and taste of the “average” American mashed potato, the ratio of carrots to peas, etc., and whether gravy should be served on the meat, the potato or both), they fail to console *me*.

MRS. JOAN LANGER

Cincinnati, Ohio

Research and the U-2

•I read "How Useful is Research?" [May, 1960] shortly after the newspapers began their coverage of the U-2 incident. It seems as if this time the policy makers completely disregarded research reports on the international situation. It even looks as if they failed to read statements of their own government concerning intrusion over the air space of national states. I wonder just how much the American taxpayer has paid for the hire of experts to gather information intended to avoid just this sort of major blunder?

F. S. RODGERS

Los Angeles, Calif.

Case of the wealthy vet

•In *Everyday Economics* for March, 1960, there is a little brief about dependent scholars. You state that "amounts received by veterans under the G.I. Bill of Rights are not scholarships and must be included in determining total support (for income tax purposes)." With the tax laws being changed and reinterpreted every day, perhaps I have escaped something in this field, but I refer you to IT 3834, published by the Treasury in 1947.

There are two elements involved in benefits under the GI Bill to scholars. The first, \$500, is paid directly to the educational institution. The second, subsistence of \$585, is paid to the veteran. The last sentence of IT 3834 says: "If the veteran does not use his subsistence allowance for his support, and the parent furnishes more than one-half of the veteran's actual support, the parent may claim him as a dependent."

The trick or *fait accompli* here is

for the veteran to have parents who can afford to put him through school so that the veteran can put the money in a savings bank for four years or spend it for nonsupport items—like maybe a Jaguar.

CARL H. BERGLUND

Tacoma, Wash.

It is also a good trick for a child actor, or a dependent with income from stocks or a trust fund. If the money is reinvested or spent on nonsupport items such as a yacht or a Jaguar, the parent can claim his affluent child as a dependent. In the case of the wealthy veteran, the parent must, in any event, count the \$500 given to the college. The remaining \$585 need not be counted unless the vet unwittingly spends it on a "support-item" civilian wardrobe to go with his new "nonsupport" Jaguar.—Ed.

Trouble for unions?

•The retreat of intellectuals from labor unions ["The Great Disenchantment," May, 1960] expresses a feeling that may some day be that of the workers as well as the intellectuals. The consensus among steelworkers seems to be that the wage increase that ended last year's steel strike will not make up for the money lost during the strike. The union seems to forget that a living wage is no longer the issue and that even the worker no longer believes that an increase of a few cents an hour is a serious matter of social justice. This was a case of two goliaths flexing their muscles. Not many people felt any real sympathy for the union's cause.

G. J. KIMBERLY

Reading, Pa.



Challenge Notes

The “quasi-companies”: neither public nor private; thoughts on unemployment; federal aid to education; a grave symbol

■ THE DISTINCTION between public and private enterprise is becoming increasingly tenuous in many areas of economic life.

For example: How “private” are firms which depend on government contracts for the bulk of their business? (See “A New Device for Government Control?,” page 13.) Or, how “public” are such federal agencies or instrumentalities as the Federal Loan Banks, the Federal Land Banks, the Intermediate Credit Banks and the Federal National Mortgage Association (Fannie Mae)? All these agencies were created by acts of Congress to perform public functions and they began business with capital furnished by the U.S. Treasury.

But today private investors own more than \$5 billion of their obligations. The stock of the Home Loan and Land Banks is now completely in private hands. In the other cases, private funds are steadily taking over the government equity.

Is this proliferation of “quasi-companies” that are neither “purely” public nor “purely” private a good thing? In many cases, it undoubtedly is. The alternative to having private companies produce missiles for the government is to have the government produce the missiles itself—a form of “socialism” that would probably be both expensive and inefficient.

In the case of privately financed federal agencies, it is certainly cheaper to have these essential services provided privately than at the expense of the taxpayer.

But there is a political danger to this blurring of differences between the public and private sectors of the economy. If such quasi-companies do not have to meet the ultimate test of either market performance or budgetary scrutiny, to whom are their managers responsible?

Thoughts on unemployment

Human thinking naturally runs along fixed lines. History shows

that our store of intellectual capital has increased only when original ideas have upset old thought patterns by establishing new ones.

Our ideas about unemployment provide a case in point. Unemployment is generally defined as the number of people who, while able and willing to work, cannot find jobs. When economists think about ways of keeping this number at a minimum they invariably think of how to increase the number of *jobs*, rather than how to reduce the number of *job seekers*. Since efficient economic growth is not always compatible with short-run job expansion, their prescriptions for maintaining full employment often run counter to their prescriptions for maintaining maximum growth.

And yet the proportion of the population in the labor force tends to decline once a country has reached a certain stage of industrial development. While people live longer, they retire earlier and enter the labor force later.

A great deal here depends on social attitudes. Is a college degree required for a job as a dance instructor? Is a man over 65 unfit to work? As an economy becomes more productive, prevailing social values seem increasingly to encourage this kind of "disguised unemployment." In fact, the social values of the "affluent society" in which we live may be helping us

to obtain maximum employment and growth as effectively as some full employment legislation.

Unanswered questions

The current debate over federal aid to education seems strangely irrelevant. Opponents of federal aid admit that our educational system needs more money (among other things), but maintain that the money must come from the states and localities. They tend to overlook the painful fact that many localities are either unable or unwilling to raise the money. Proponents of federal aid, on the other hand, tend to ignore the very real danger of government interference in our educational system. Can federal financing be kept separate from federal controls without the most stringent controls? If the answer is no, how can we have a free and effective educational system? These are some of the questions that need to be examined.

Grave symbol

The business of business is business. Grandiloquent statements to the contrary often make painful reading. At least we hope the American Cemetery Association was wrong when it recently proclaimed: "Soundly managed, and publicly appreciated and supported cemeteries manifest our devotion to liberty and proclaim the strength of our ideals."—M. K.



THE SPARK MISSING

by W. S. Woytinsky*

■ THE PUZZLED LAYMAN flipping the business pages of magazines and newspapers is often hard-put to determine where we *really* are in terms of short-run business fluctuations as well as long-run economic trends. It is doubtful that the business publications he anxiously peruses will be able to give him any real satisfaction. Instead of answering his basic questions they offer him a profusion of news items relating to production, sales and inventories, profits, investment plans, etc. They offer him figures which compare the present situation to that of last week, last month or last year. They offer him still more figures which project the present situation into a business outlook for next week, next month and next year.

Understandably, the layman becomes confused by this flow of information. Individual news items are not necessarily characteristic of over-all trends in our economy. Another difficulty is that economic comparisons relate to ever-changing bench marks. The meaning of a five per cent advance over the preceding year, for example, depends on how good business was a year ago. Current economic news can be properly understood only when it is viewed in a much broader perspective than that of a week, a month or a year. With this point in mind I should like to answer our layman's question by attempting to indicate not only where we are but also how we got there.

Close examination of records shows that our economy has made

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**It was with profound regret that we learned of Dr. Woytinsky's death as this issue was going to press.*

good progress from the low point of the recession in 1958. Industrial production began to pick up in May, 1958, and reached the prerecession peak in February, 1959. It continued to rise until June, 1959, when it touched a point eight per cent above the February level. But further expansion was blocked by the four-month steel strike and, contrary to expectations, was not resumed after the settlement of the dispute. In spite of some improvement in April, the recovery had lost its momentum. To what extent does this pattern of recession, growth and leveling off constitute a normal business cycle? At present, it looks as if we are following fairly closely the pattern of a previous cycle begun in 1953.

Appraisal and indicators

Recovery after the recession of 1953-54 started in September, 1954, and lost momentum 15 months later, when the Industrial Production Index stood six points above the prerecession peak. The Index inched up through 1956 and did not advance at all in the first half of 1957. In the fall of that year it began to decline until the following April, when it reached the low point of the 1958 recession. It is highly probable that, in terms of this kind of cycle, we are not yet at the point where the recovery has exhausted itself. Either production will continue at the pres-

ent level with inconsequential ups and downs until a steep downturn occurs about the end of 1960, or we are already sliding down the descending slope of the cycle. In either case, the annual average of industrial activity in 1960 will probably lag behind the 1959 record.

This appraisal of the situation is confirmed by other economic indicators:

- Gross national product (at constant prices) increased steadily from the first quarter of 1958 to the second quarter of 1959, but lost ground in the second half of that year. Its upsurge in the first quarter of 1960 seems to have been temporary.

- June, 1959, saw the peak of seasonally adjusted manufacturers' sales, new orders and new construction.

- January, 1960, was appreciably behind January, 1959, in total value of construction contracts and the number of new dwelling units started.

- Seasonally adjusted sales in retail trade rose steadily until the summer of 1959 but have shown no appreciable gain since then.

- Apart from minor fluctuations in single countries, July, 1959, recorded the peak of seasonally adjusted employment in manufactures, mining and construction.

- Average weekly hours of work in manufacturing, construction

and retail trade have steadily declined since June, 1959.

If the year 1959, like 1953, marked a turning point in the business cycle, 1961, like 1954, will probably be marked by a recession. Assuming that this is so, we can estimate that the annual rate of growth in GNP between the recession years of 1954 and 1961 will be less than two per cent. (The annual rate of growth from the peak of 1953 to the peak of 1959 was 2.5 per cent.) These rates contrast with the annual rates of growth of GNP before 1953. The average rate of growth between 1933 and 1953 was 5.5 per cent a year; between 1947 and 1953 it was 4.6 per cent.

Normal stage

Official analysts have stressed that 1959 has been a *record* year since the United States enjoyed a larger GNP that year than ever before. The statement is correct. However, there were 14 years from 1941 through 1959 that can be described as "unprecedented record years"! A new record is not a special distinction in a growing economy and represents, rather, a normal stage of growth. The important point is not whether the recorded volume of economic activity during a given year has increased in comparison with the preceding year, but *how much* the increase has been. The hard fact

of life is that the U.S. economy, which increased at an average annual rate of 4.6 per cent between 1947 and 1953, increased at a rate of only 2.5 per cent per year between 1953 and 1959.

It is widely believed that as an economy grows its *rate* of growth will tend to decline. On the surface, this seems a reasonable assumption. If a \$500-billion economy is to achieve an annual growth rate of, say five per cent, its GNP must increase by \$25 billion. But a \$100-billion economy can achieve an annual growth rate of five per cent by increasing its GNP by only \$5 billion.

The facts, however, do not support this theory. There is no historical basis for believing that an economy's rate of growth must decline as the size of the economy increases. Every nation experiences periods of dynamism and periods of conservatism. I believe that a combination of political factors, psychological climate and general moral philosophy really determines the pattern of a nation's economic development. That is why the sharp drop in the rate of economic growth in the United States after 1953 is probably connected with the prevailing philosophy of government, and the psychological and moral atmosphere in the country.

After 1953 the U.S. government became increasingly business-oriented. More businessmen and

fewer professional men were appointed to government office. Unfortunately, this meant that the government regulatory agencies set up to control certain private industries were staffed by men prone to be sympathetic toward the very abuses of power it was their business to curb. Big business and personal financial success became the watchword again as they had been during the years preceding the Great Depression. Government responsibilities for the general public welfare were underplayed while government encouragements in the area of private business enterprise abounded.

Successful persuasion

The government has succeeded in persuading the people that the U.S. economy is perfectly sound. Of course, the Administration has not misled public opinion deliberately; its spokesmen sincerely believe in their optimistic diagnosis. They mingle with people who have proven their ability in economic matters by putting enough money aside for a rainy day. As long as these people are enjoying sufficient profits they feel there is no cause for worry about the slow rate of growth of the economy.

But there *is* cause for worry. If the U.S. economy had progressed after 1953 at the same pace as it did between 1947 and 1953, the GNP of 1959 would have been \$544

billion (at 1959 prices) rather than \$480 billion. Thus, the change in the rate of growth cost the nation some \$64 billion in 1959. Its cumulative loss from 1954 through 1959 may be estimated at \$200 billion.

This loss was distributed among various types of income and investment, private and public. Though much of it, no doubt, would have been wasted on luxury consumption, a considerable portion would have gone toward the improvement of the living conditions of people in lower-income brackets and toward raising the capacity of our industrial plant. The government would probably have had an additional \$75 billion to meet the urgent needs of the population, to strengthen our defense and to expand foreign aid. Since so many worthy projects were rejected in this period because they required outlays of a few million dollars, a \$75-billion loss in public receipts appears serious.

Unemployment rise

Another result of the change in the rate of economic growth has been a steady rise in unemployment. Until 1953, this country had practically full employment; since 1953 our slowly growing economy has been unable to absorb our expanding civilian labor force. It has absorbed only 3.3 million of the 5.6 million workers added to the civilian labor force since 1953.

The number of employees in all sectors of production of goods (mining, construction, manufacturing, transportation and public utilities) declined from 24.9 million in 1953 to 23.5 million in 1959. Thus 1.4 million jobs were wiped out as a result of the slow growth of industrial production. Rising at an average annual rate of 1.8 per cent, industrial production is just keeping pace with the increasing population. There is no margin for progress in urbanization, the shift of labor from agriculture to industrial pursuits, and the growing and more complex needs of people. There would have been steady employment in production of goods and, in general, enough jobs for all if industrial production (including utilities) had been advancing at a moderate rate of 2.8 per cent a year.

Detailed projections

Detailed projections of employment and unemployment in the United States from 1960 through 1975 have been published recently. The civilian labor force has been set at 84.6 million for 1970 and 92.3 million for 1975. According to these figures the labor force will increase by 22.9 million between 1959 and 1975. The report assumes that unemployment will average only four per cent. Thus total employment in 1975 is estimated at 88.6 million.

This is not how I read the writing on the wall. The experience of 1953-59 shows that at the present "sustainable" rate of growth the U.S. economy can absorb some 550,000 new workers a year, or 8.8 million in 16 years. This would mean that, of the 22.9 million men and women who will be added to the civilian labor force between 1959 and 1975, 14.1 million will not be able to find jobs. Even if we assume that the ability of the economic system to absorb new workers will increase in direct proportion to the growth of the labor force, about 40 per cent of new workers, or 8.6 million workers, will not be able to find jobs. In any case the conclusion is clear. If recent economic trends continue in the same direction and with the same speed, the U.S. will find itself in great difficulties by 1975.

Moreover, the downturn in the economic growth of the United States came at a time when the U.S.S.R., Western Europe and Japan entered a period of rapid economic expansion. American observers have described the state of economic affairs in these areas as a *boom*, a highly misleading term suggesting a temporary upsurge leading to collapse. Actually, there has been no indication of dislocations and an approaching economic breakdown in these countries. The situation there resembles the period of dynamism in our

economy in 1933-53—not the short-lived “boom” we experienced in the late 1920s.

The fact of the matter is that the position of the U.S. in the world economy has been deteriorating rapidly. The contrast between our near stagnation—admittedly on a very high level—and the dynamism of the Soviet economy is shocking. From 1953 to 1958, the volume of industrial output increased by only two per cent in the U.S. while it expanded by 70 per cent in the U.S.S.R.

This new pattern of economic trends in the U.S. cannot be changed by minor reforms—some concessions to the aged, some hand-outs for education, a perfunctory cleaning up of the regulatory agencies, resignation (with honor) of a few businessmen caught in a flagrant conflict of interest. Nor is the present crisis a matter of partisan politics. Political groups who, while opposing the Administration, have been condoning the policy that has brought about the new economic pattern share the responsibility.

Change can come only from the spiritual revival of the people, their decision to turn the steering wheel of national policy, their demand for socially minded leaders aware of the requirements of our time. We need leaders who are capable of making decisions and of calling the people to serious efforts and sacrifices if need be. We need leaders who are not afraid to build a great government when the nation's destiny calls for greatness.

The road of economic advance in a great nation is marked by ups and downs. A nation can take some economic and military reverses; in fact, a setback may prove to be a blessing in disguise. Such was, for example, the Great Depression which put an end to the economic folly of the preceding decade and opened an era of great reforms from 1933 to 1953. As long as people maintain faith in themselves, their dreams and their courage, and can follow gallant leaders, they can rise again after a period of political and economic stagnation. ■

Buying a Tax

TV VIEWERS in Wisconsin were recently surprised by “commercials” which advertised, not a product, but a *tax*. Business groups bought TV time to advertise the advantages of passing a three per cent state sales tax which would, according to the advertisement, permit reductions of state income and property taxes while producing more revenue.



A NEW DEVICE FOR GOVERNMENT CONTROL?

by Charles E. Lindblom

■ BEFORE THE changeover to jets, planes made by the Douglas Aircraft Co. transported more passengers than the planes of any other company in the world. Yet today, according to recent press reports, this once dominant company is losing money. Even if it succeeds in making some difficult adjustments, Douglas Aircraft may never regain its earlier proud position.

Now, Douglas management has not lost its skills. Nor can the company's current difficulties be attributed to the normal perils of competition. What has happened to Douglas—and it is something that is happening to an increasing number of corporations—is that its fate has come to depend on government contracts. In 1958, for ex-

ample, defense contracts accounted for 78.7 per cent of the company's total sales. But contracts have been disappointing of late. Once Douglas had passed its production peak on the Thor missile, for example, it was left without a new contract to replace Thor.

Douglas' dependence on defense contracts is by no means unusual among today's leading aircraft, missiles and electronics producers. A recent study of 43 military prime contractors before the Joint Economic Committee of Congress discloses that 16 did more than 60 per cent of their business with the government in 1959. Of Douglas' competitors in the aircraft business, for example, defense contracts accounted for 88 per cent of United Airlines sales, 86 per

cent of Lockheed Aircraft Corp., 81 per cent of Bell Aircraft and for most of the business of the others. In the missiles field some companies, such as Martin Co., which depended on defense contracts for 99.2 per cent of its \$400.2-million sales in 1958, are, in fact, private companies doing only government business. The same is true of many electronics firms such as Raytheon Manufacturing Co., which did 86 per cent of its business with government in 1958.

Confusing statistics

What effect does this growing dependence of many key companies on defense business have on their independence of action? Has government used its contract authority as a means of controlling business enterprise? And even where contracts have not been intentionally used as a control device, what indirect effect have they had on the allocation of the nation's economic resources?

Over-all statistics in this area are admittedly confusing. Nevertheless, it is significant that in fiscal 1958-59 the total net value of military procurement with private corporations in the U.S. amounted to some \$22.5 billion—which makes the U.S. government the largest single customer in the country, even if we exclude its vast non-military programs. Clearly, such

huge amounts of money cannot help but exert tremendous influence on the nation's allocation of economic resources.

Size and concentration

What is important here is both the size of the government's involvement (which, if we exclude nondefense items, came to only about 4.5 per cent of GNP in 1959) and the concentration of government contracts in certain industries such as aircraft, missiles, electronics, etc. The missiles industry is, of course, largely a government creation. But many of the other defense industries which also have important civilian applications, such as electronic communications, aircraft, chemicals, etc., have developed quite differently as a result of government participation.

How far does a government contract go in extending public control over a private business enterprise? Perhaps the best example of the conscious use of government contracts as a control device is to be found in the atomic energy industry. The production of fissionable material is controlled not through public ownership and operation, but through government contracts with various corporations, such as General Electric and Du Pont, who operate government-financed plant and equipment on lease.

Thus the atomic energy industry is ruled neither by competition, public regulation nor outright government operation—the three traditional forms of industrial organization. As David Lilienthal, the Atomic Energy Commission's first chairman, put it to members of the Joint Congressional Committee on Atomic Energy when the program was first initiated, the government was trying "to develop a new kind of setup in American industrial affairs, which is a hybrid of public and private. . ."

Basic decisions

This kind of "public-private setup" exists in all fields where government does most of the buying. For, a public contract directly involves the government in the basic management decisions of the contractor. Government contracts spell out what is to be produced, how the product is to be designed, what quality control standards should prevail, what labor relations procedures are to be followed, and even the contracting company's capital expansion plans and research programs. The contract has, in fact, become a device for involving government in almost any aspect of business management. But this government participation is limited to what the contracting agency deems necessary for purposes of a specific job.

The source of the government's

power to control resides in the terms of the contract. The courts generally find that a contracting corporation's right to refuse a contract provides it with sufficient protection against unwarranted government interference. Thus the extent of government participation and control is limited only by the terms of the contract. And when contracts are financially attractive, consent for an enlarged government role can be easily obtained.

How private, then, is a private corporation which depends for the bulk of its business on government contracts? If we understand by private ownership the right to make a decision about the use of one's assets, the government contract may greatly reduce the reality of private ownership while retaining the form.

Similarly, those who regard individual creativity rewarded through the patent system as an essential element of private enterprise, will learn with something of a shock that only about 15 per cent of all invention is directly motivated by the prospect of patenting it. According to Dr. A. V. Astin, director of the National Bureau of Standards, most of the current development in scientific research and development can be credited to activities undertaken under defense contracts.

Of course, this situation works

both ways. While it is true that government contracts are a means of public control, they are also a device whereby the corporation can extend its influence over public affairs. The U.S. missile program, for example, is greatly influenced by the advice and initiative of contractors and would-be producers of missiles. In the case of atomic energy, private enterprises, on contract with the AEC, have actually assumed public functions. The town of Los Alamos, N.M., which is built around atomic installations, is managed by private contractors who even provide the town with such "public" services as police and fire protection.

Indistinguishable area

Is this blurring of traditional distinctions between public and private enterprise desirable? We in the United States have always tended, I believe, to draw too sharp a line between the public and the private. Our postwar experience with government contracting indicates that the line which divides the public and private sectors of the economy is hardly a line at all, but rather a large area where public and private become indistinguishable.

When it comes to organizing research, innovation and procurement for national security, moreover, we often have no choice.

Either we organize production through the government contract or we have to resort to formula-ridden devices like public ownership which would probably be less appropriate alternatives in such dynamic fields as missile development.

But even in those enterprises where government participation in running the business is so comprehensive that a change to public ownership would make little visible difference in the way the organization is run, there sometimes remain two important advantages in retaining private ownership.

First of all, no matter how broad the government's interest in the activities of a private company may be, that interest is limited by the terms of the contract. This allows a scope for additional "private" activity through the market.

There is another reason for preferring control through contract to government ownership in such cases. The public contract enables government to tap the services of *existing* entrepreneurial, technical and supervisory teams. When for example, the government contracted with General Electric to produce fissionable materials, it was able to take advantage of proven managerial strengths. This kind of management know-how is often superior in experience and accumulated competence to any

new team that the government might be able to assemble to manage a government-owned production facility.

But government control through public contract does raise some serious problems. Many critics have argued, for example, that our atomic energy program would have moved faster if it had not been largely dominated by "doctrinaire" notions of the sanctity of private enterprise.

Further concentration

Other criticisms relate to the use which government has made of its power to control through contract. In particular, many critics object to the tendency of government agencies to concentrate defense contracts in large, established firms. According to a recent Defense Department report on military procurement programs during fiscal 1958-59, 20 companies received more than half of the total military procurement dollar while some 100 companies and their affiliates got 73.8 per cent. Considering the complexity of modern military technology, this is not surprising. It does seem to indicate, however, that control through contract may tend to encourage further concentration.

Others, again, argue that reliance on contracts encourages wasteful business practices. Critics of the atomic energy program,

for example, have alleged that the need for allowing adequate margins of error in estimating the cost of new projects discourages cost-conscious business management.

Finally, there is the more basic argument that, in those instances where government becomes a major participant, the contract, in fact, robs the business of such traditional private enterprise virtues as eagerness to anticipate consumer tastes, legal freedom to react quickly to changing circumstances and a desire to improve its competitive position through increased efficiencies. For, the whole point of the contract is to permit the government agency rather than the consumer to call the tune. Nor is it possible for the benefits of competition to make themselves felt when, as is typically the case in atomic energy, the contract is a long-standing relationship with a favored company.

Actually, the choice between the public contract and other regulatory devices is not as difficult as it might appear. For, we are free to pick and choose among the regulatory device we deem appropriate in each particular situation. The public contract is merely one device among many. But it is an extremely useful device, especially in that segment of our economy which is neither "purely" public nor "purely" private. ■

Market Basket Economics



1949



1955



1960

by John McKnight

■ THE HOLDERS of family purse strings have no doubt become a little worried by repeated news items in the last few years about the continuing rise in the consumer price index. It does, indeed, seem a little worrisome that the consumer index today is 25 per cent above its average level during the postwar period between 1947 and 1949.

But what exactly does such a rise in the consumer price index mean? Does the index really measure the increase in an average housewife's living costs?

The consumer price index is used almost universally as a measure of living costs. But the Bureau of Labor Statistics, the compiler of the index, points out that it should

be regarded only as *an index of prices of the goods and services that consumers buy*. And family living costs can be affected by a number of factors in addition to the cost of goods and services. A rise or fall in income, a change in living habits, an increase or decrease in family size—all these have nothing to do with the cost of goods and services, but they have a lot to do with a family's living costs.

It must also be pointed out that the index is designed to measure the changing cost of a fixed "market basket" of goods and services *of the kind bought by a city worker's family*. Thus the index cannot be regarded as a measure of the changing cost of the kinds of goods

and services bought by a high-income family, a low-income family, a farm family or the self-employed.

Weights for the current consumer price index are based on a survey of family expenditures conducted by the Bureau of Labor Statistics in 1950. The weights were adjusted to 1952 conditions before being introduced into the index in January, 1953. The percentage of the average worker family's total spending which went for food during this survey period is given a corresponding weight in the index. In a similar way weights were given to spending for other groups of commodities and for a variety of services including housing, rent, medical care, transportation, recreation and others. In all, the consumer price index prices some 300 commodities and services.

The index is computed on a national average basis and also on an individual basis for some 20 cities from data collected in as many as 46 cities. But the Bureau points out that these figures cannot be used to compare changes in consumer prices between cities until more work is done to make the various city data more complete. This is being accomplished by developing a standard budget for a typical worker family and by computing the total cost of this budget from city to city.

Budgets for other groups in the population—e.g., a typical elderly couple on retirement—are also under consideration.

In measuring the effect of a rise in the cost of living index one has to take into consideration any rise in the average family income which may have occurred in the same period. Department of Commerce data on family income reveal that average personal income per family and unattached individuals rise 50 per cent from 1948 to 1959—or from \$4,350 a year to \$6,520 a year. This rise has outstripped the rise in the consumer price index since the 1947-49 survey. After-tax income was up almost the same percentage, having risen from \$4,010 to \$5,880. This rise outstripped the rise in the consumer price index. In other words, real income per household has risen in the past 11 years and the average household is better off, in terms of its ability to buy goods and services, than it was in 1948. If we take into account the fact that both the quantity and quality of goods now available to the consumer has improved, we have another plus factor in reckoning the total utility of the money spent for running a household.

Still another factor to be taken into consideration is the revolution in merchandising—especially food merchandising—which has occurred in the past decade. The evolution

of the supermarket has made a great impact. Equally significant has been the transformation of food packaging to allow for increased convenience to the consumer, increased flexibility in handling and added protection. Shopping can be done much more easily and quickly today as a result of these sweeping changes.

Basic problem

All this points to a basic problem in the measurement of price change over a period of years. Few products remain constant in their physical characteristics over any length of time. Some of the differences can be accounted for in compiling prices for the price index; others cannot. Introduction of new products also presents a problem in measuring price changes.

Prof. Richard Ruggles of Yale University has stated this most provocatively by asking whether the consumer would be happier with 1948 prices and the choice of goods available then or with 1958 prices and the selection of goods then on the market. Average prices in 1958 were higher but the variety of goods was greater, many new products had made their appearance and shopping convenience had been improved. These differences can never be measured fully by a sample of consumer prices. They mean, more-

over, that as time goes on the average worker family will wish to enlarge its "market basket." Last year's family "market basket" is not necessarily representative of normal expenditure patterns for this year or next year. For this reason, the BLS suggests that these spending patterns be resurveyed at least every 10 years.

Who notes the pinch of rising prices most in the average family? Is it the housewife, or is it the wage earner? The housewife does most of the family spending on commodities—food, clothing, furnishings, etc. The wage earner is most often involved in paying such costs as rent, telephone service, medical care and transportation.

Interestingly, of the goods and services included in the consumer price index, those normally purchased by the housewife have risen least in the last 11 years. As we mentioned earlier, the index as a whole has risen 25 per cent in that time. But in December, 1959, food prices were up only 18 per cent from their 1947-49 average. Prices of meats, poultry and fish, as a group, were only seven per cent higher. (They were 11 per cent *below* their highs of mid-1958.) Dairy product prices were 17 per cent higher; fruits and vegetables—which have had the greatest rise in the postwar period—were up 25 per cent (eight per

cent *down* from their highs of April and May, 1958).

The housewife has actually been faced with declining food prices over the past year and a half. This may sound strange in view of public concern over inflation. But right now supplies of agricultural products are relatively abundant. Price rises will still occur—particularly at times of shortages caused by bad weather, cattle cycles or similar causes—but food price increases over the next several years will probably continue to be less than increases in other consumer prices.

Apparel prices

Another area of spending for the typical housewife is that of clothing. Here, too, the rise in prices since 1947-49 has been well below the average rise in all consumer prices. Apparel prices in the consumer index were only nine per cent above their average in 1947-49. Their last substantial increase was in 1951 during the Korean war. The end of 1959 figure for the apparel index was only a little higher than its 1951 average.

Prices of house furnishings, another area of spending reserved chiefly for the housewife, were only four per cent higher at the end of 1959 than in the index base period. This was the smallest rise of any price group in the index. Relatively speaking, therefore, in

comparison with 11 years ago, the housewife's dollar now goes furthest when spent for home furnishings. Prices of this group rose by 11 per cent in 1951 but have since dropped by six per cent, declining in all but two of the last eight years.

Thus for three major types of spending by the housewife, the rise in prices has been less than the rise in the entire consumer index. And, in two of the three areas—food and home furnishings—prices at the end of 1959 were lower than in earlier years. Prices in the apparel group were only two per cent higher than they had been eight years earlier.

The services component of the consumer price index has shown a much larger increase than the commodities component. The price index for services is now nearly 50 per cent higher than in the 1947-49 period. (All commodities included in the index rose, as a whole, only 17 per cent.) Three components of the service sector which have increased the most are rent, medical care and public transportation.

Rent index

The price index for rent has risen every year since 1943. Rents were stabilized during World War II so that increases from 1943 to 1946 were slight. However, using the 1947-49 period as a base, rents

rose an average of four per cent yearly from 1948 to 1954 and an average of two per cent a year from 1954 to 1959. The rent index was 41 per cent above its 1947-49 level at the end of 1959.

In the light of current quotations for living space, one might expect that the rent index would have risen even higher. Presumably it did not do so only because an important part of the rent price index represents housing, which is still subject to some form of rent control. The index also reflects prices of new dwelling units as well as units which have undergone gradual decontrol.

Medical care

The decline in purchasing power of the dollar is perhaps best illustrated by the steady rise in the cost of medical care. The medical care index was 53 per cent above its immediate postwar average at the end of 1959. Costs of hospital care, as distinct from doctor's fees, had risen even more than this. The increased cost of hospital care reflects the steadily rising expenses faced by hospitals for wages and other operating costs. At present, no halt to this uptrend appears in sight. No doubt some portion of the price rise can be considered to have resulted from improved hospital care.

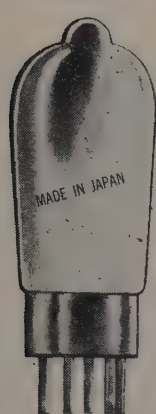
The average price of public transportation is now nearly twice

its 1947-49 level. This steep rise in the transportation index reflects the doubling, tripling and quadrupling of bus and subway fares in many leading cities in the last decade.

The varying rates of increase of the items entering into the "market basket" of family spending and hence the consumer price index have thus meant a changing allocation of the consumer dollar over the past dozen years. A greater portion of this dollar now goes for services of one kind or another, and a lesser portion goes for food, clothing and other items traditionally included in the living cost concept. Shelter—a basic item which is taking a greater portion of the consumer dollar than previously—is an exception.

It must be pointed out, however, that the extent to which these generalizations are true varies greatly with the individual family. Probably no single family fits exactly into the Bureau of Labor Statistics' concept of the "average city worker family." It must also be emphasized that, since the rise in family income has more than made up for the rise in the consumer price index, the "typical" housewife today has just as much or more to spend on commodities as she had 12 years ago. But her choice will be more complicated by the wider selection of goods now available. ■

One way to meet foreign competition



mostly

MADE [^] IN U. S. A.

by Elliott Haynes

■ A LARGE U.S. MANUFACTURER recently approved a \$2-million capital investment for a new plant to make a product in popular demand, only to discover that the product can be supplied for about 40 per cent less by a Japanese firm. Another U.S. firm makes identical products in Pennsylvania and in Italy. But Italian costs are so much lower that the firm can sell its Italian-made product to Pennsylvania consumers at two-thirds the price of its domestic product.

This type of dilemma is confronting more and more board rooms across the nation. Increasingly, the verdict is: "If we can't lick 'em, we'll join 'em." The list of firms engaged in this practice

reads like a social register of U.S. industry. General Motors, Ford and Chrysler, of course, are importing cars made by their subsidiaries and affiliates in Europe. International Harvester is bringing in a diesel-powered farm tractor made in its British plant. Remington Rand and Royal McBee are importing portable typewriters made in their European plants. Burroughs calculators, sold in the U.S. market, are made in Scotland. Singer has been importing some industrial and home sewing machines from Scotland and is planning to import from Germany all needles sold in this country.

In addition, many U.S. firms, while not importing an entire line

of goods, are importing components of items manufactured here. Bell & Howell is bringing in lenses from abroad. American Machine and Foundry is importing chains and accessories for its U.S.-made bicycle and a wide range of rubber sporting goods for its Voit line. U.S. industries will soon be importing flashlight batteries made in Hong Kong. Baldwin-Lima Hamilton was low bidder, against foreign competition, for hydraulic turbines for a TVA installation; it plans to secure some of the equipment in Europe.

Startling increases

A commodity breakdown of U.S. imports in recent years shows startling increases in the importation of manufactured and semi-manufactured goods. While total imports rose only 24 per cent between 1954 and 1958, imports of rubber products jumped 292 per cent; of cement and lime, 190 per cent; glass, 141 per cent; power generating machinery, 145 per cent; office machinery, 193 per cent; electric machinery and appliances, 233 per cent; motor vehicles, 872 per cent; photographic supplies, 176 per cent. These figures, in addition to mirroring the growth of foreign concerns selling in competition with U.S. producers, also reflect the rising purchases by U.S. firms of finished capital goods and of components

for inclusion in "Made in U.S.A." products. Figures for 1959 show an even more rapid acceleration of the trend.

The decision to import components, semifinished products and finished goods is not taken merely because of the grim necessity of meeting foreign competition. In many cases the particular product (or design or style) is not made in the U.S., and tooling up for production in this country doesn't seem worthwhile, at least for the present. For many years this was the situation in the automobile industry and, to some extent, it still is. It also applies to many types of textiles, certain diesel-powered tractors, some designs of watches, some office equipment, several small electric components and other products. Besides, importing a product or design not made in this country is an economical way to test the U.S. market.

Answering demand

Often a company's U.S. dealers and distributors put great pressure on it to supply an imported line. It is important for the firm to keep its distribution agents happy, prosperous and loyal. This was one of the primary motivations for Chrysler's investment in Simca and the resulting arrangement for Chrysler's U.S. dealers to handle the Simca line. The fact

that many U.S. companies give their overseas affiliates maximum freedom to develop business in the U.S. market helps to answer the demand for imports.

When all is said and done, however, the need to meet foreign competition lies at the root of the trend toward importing components and finished products. If the U.S. firm itself does not bring in an imported item that can be sold competitively and at a good profit in the U.S. market, someone else—another domestic or foreign competitor—may do so, and the U.S. firm will probably suffer. All this raises serious questions about the competitiveness of U.S.-made goods.

Too often these questions are dismissed on the grounds that, after all, low foreign wage rates are responsible. But this may be more of an alibi than an explanation. Low labor rates are generally characteristic of countries that have low productivity. In many cases foreign costs for materials are higher than in the U.S.; and the cost of capital (interest rates) is higher almost everywhere. On the other hand, the tax burden, built into U.S. costs, is higher than in many countries. *All* costs must be examined.

As an example, in Japan, a major competitor in world markets, hourly wages for all manufacturing industries were only 9.6 per

cent of U.S. wages in 1958. Yet in a survey of 12 major U.S. manufacturers with plants in Japan, eight reported total production costs higher in Japan, while a ninth admitted that distribution costs were so high that they offset lower production costs. High Japanese power and material costs, relatively high wages for unskilled workers, payrolls padded because of Japan's terrible unemployment problem, excessive attention in some fields to quality—all these factors boost production costs in Japan. Japanese exports have mounted in spite of these obstacles largely because the Japanese government has established excellent export credit facilities and has energetically promoted Japanese goods.

Step up R & D

To meet the problem of foreign competition today, U.S. industry is challenged as never before to step up its research and development, develop new products, improve marketing methods and re-examine its costs from top to bottom. A U.S. firm that takes all these steps may still find its products priced higher than those of competing imports, but this need not mean loss of the U.S. market. In one instance, a U.S. electrical firm whose durable consumer product was priced 50 per cent higher than Japanese competing products

on the U.S. market found it could compete effectively because:

- It possesses an established marketing organization with distributors and more than 50,000 dealers.

- It provides a warranty and service guarantee, and nationwide service for the product, whereas the Japanese products carry no warranties, parts are unobtainable and dealers selling the Japanese products look the other way when something goes wrong.

- Its selling price provides dealers with a better profit and thus they push it harder.

- Its customers shy away from giving the Japanese product as a gift, which they feel would be giving "cheap Japanese merchandise."

Facing the issue

Nevertheless, there comes a point when importation is necessary if the U.S. firm is to compete effectively in the U.S. market. Even in the case just cited above, the U.S. firm imports Japanese components. Importing the finished product would make it even more competitive, but the firm stopped short of this in order to protect its employees and actually *increase* the jobs it could provide. When the need to import components was accepted by management, the issue was faced honestly and squarely with foremen and su-

pervisors; then, with their agreement, the full story was presented to employees. Assured that switching from U.S. to Japanese component suppliers meant more, not fewer, jobs, and larger, not smaller, profits, the workers were all for the idea.

The most creative of all answers to this need for importation and, as mentioned earlier, one that a growing number of blue-chip U.S. firms is adopting, is for the U.S. firm itself to invest abroad in the production of components and finished products for shipment to the U.S. In this manner, the international divisions of many important U.S. manufacturing companies are increasingly getting into U.S. domestic business. Reflecting, as it does, specialization of labor on the international level, this investment can only be a healthy thing in the long run for U.S. consumers, U.S. stockholders and even U.S. workers, including workers temporarily displaced. It is also healthy for the nation as a whole and its balance of payments. Raising barriers to imports to "save" jobs and protect our balance of payments, in contrast, would hasten the U.S. and the world toward a resounding depression.

The figures show that there is no need to worry about the effect of U.S. investment abroad on our balance of payments. U.S. invest-

ment overseas is yielding substantial *net* benefits to the U.S. balance of payments. Income from direct foreign investment has been greater than outflow by an average of \$740 million annually since 1950. The 1959 net gain from U.S. direct investments abroad (\$900 million) more than makes up for the drop of \$600 million in U.S. foreign merchandise trade (excluding government-financed export programs) during that year.

Income and outflow

How is it that income from direct, foreign private investment is so consistently and impressively higher than the outflow of capital? Part of the answer is that the government does not include the reinvested earnings of foreign subsidiaries in its statistics on direct foreign investment. Many important overseas manufacturing plants grew out of reinvested earnings which are now paying off. The investments made by foreign base companies of U.S. corporations who have an entire autonomous operation abroad are also not regarded as capital outflow in the balance of payments statistics. In recent years, hundreds of leading U.S. corporations have been making their major investments abroad through these foreign base companies—out of funds largely earned abroad.

To a great degree, the outflow

of direct investment funds from this country represents only a primer to start up a plant financed in the main by foreign earnings of such subsidiaries. To reduce this flow of primer capital would be to reduce the acquisition by U.S. companies of foreign facilities producing far more income than the relatively small outflow of dollars would indicate.

The sizable net gain to the U.S. balance of payments of direct foreign investment is also the result of the equity in foreign plants that U.S. companies consistently receive in return for their patents, know-how and trademarks. Several weeks ago, for example, a U.S. manufacturer gained 51 per cent of a new French company for these assets alone. Furthermore, U.S. companies are discovering ways to borrow a good portion of the capital needed for a new venture overseas from local sources and to find such substitutes for capital as local grants to new investors. All of this materially reduces the drain on the U.S. balance of payments of direct foreign investment.

It should not be forgotten that U.S. dollars spent abroad eventually come back in a variety of ways—to pay for U.S. exports, to liquidate outstanding government and private loans, to pay dividends and interest on U.S. investments abroad, to finance foreign tourism

in the U.S. and as capital investments by foreigners in this country.

Many big industrial nations are selling more to the U.S. than they are buying. It is reasonable to suppose that this development, coupled with the rise of gold and dollar reserves of these countries, will result in fewer discriminations against dollar goods and the lifting of quantitative import restrictions. In short, as others sell more to the U.S., they will be in a position to buy more. Export sales departments of many firms should be inspired to sell with more vigor and imagination. The opportunities as well as the competition are increasing.

Investments by foreigners in the U.S. are on the rise. The dollars being invested were earned, in the first instance, largely by the production of goods sold in the U.S. Some recent examples: Montecatini is building a \$10-million plant in Neal, W. Va., with a capacity of 25 million lbs. of synthetic fiber. A British real estate firm has agreed to invest up to \$25 million in the new Grand Central Building in New York. Saint Gobain has announced that it will build a \$50-million plate-glass plant at Greenland, Tenn. With

less fanfare and publicity, many other European firms are quietly investing in a wide variety of industries in the U.S. This shows their conviction that the U.S. has not priced itself out of world markets and that this is still an important and growing economy. Dollars spent abroad are coming back to create new and different jobs in this country.

The benefits to temporarily displaced U.S. workers of these job changes are becoming increasingly evident. Workers in uneconomic textile plants in Pennsylvania are not nearly so well off operating under tariff protection as are North Carolinians whose farsighted and energetic Gov. Luther Hodges has already brought in eight or nine foreign companies to invest in industries that will be tough competitors for anybody.

But these encouraging facts in the investment picture do not mitigate the necessity of increasing our exports. The U.S., having preached the gospel of specialization of labor, is now learning what it means. Only as U.S. firms learn to cope with the tremendous shifts involved in finding the best fields in which to compete can employment and living standards rise. ■

Presweetened

FOOD PROCESSORS now use more sugar than the housewife. Processors use 50 per cent of the nation's sugar to prepare convenience foods.

MEDIA, MONEY *and* MARKETS

*A television critic and an advertising expert
discuss the political and social consequences of
advertiser-financed mass media*



BILL EWALD
TV-Radio Editor,
"Newsweek"



GEORGE T. CLARKE
Director, Bureau of
Education and Research,
Advertising Federation
of America

TURN PAGE →

Media, Money and Markets

Q Communications is one of the few products which the consumer does not pay for directly. The bulk of the cost of mass media is met by the advertiser. Now, the obvious question to ask you gentlemen is why this is so—and why it is becoming increasingly so.

Clarke: Well, I think we would both agree that the basic reason is costs. The cost of maintaining the tremendously valuable news, entertainment and information services provided by television, radio, magazines and newspapers is so high that, without advertiser support, they simply could not be made available to the average American. Radio and television, of course, have—with a few exceptions in the case of radio—been completely advertiser-financed right from the beginning. And, outside of government control, I do not see how you could have mass radio or television without advertiser financing.

Ewald: I agree with you on the economics of the problem. Where you and I differ is in our evaluation of the quality of the entertainment resulting from this need to compete for the advertiser's dollar. Just speaking in terms of television, with which I am most familiar, I would say that advertisers investing in mass media almost invariably favor a rather bland product. Understandably, the cost-per-thousand philosophy is always uppermost in their minds. They want to expose the largest possible number of people to their commercial message. Thus they would rather reach 27 million people with a Western than 12 million with a sophisticated comedian like Sid Caesar. A sponsor simply cannot "afford" a show which only appeals to a "minority" of 12 million people—that is, almost twice the population of New York City. And I say that the programs currently on television clearly show that this kind of economics is not compatible with quality.

Q But can you blame advertising for this situation? Don't the economics of mass production dictate the largest possible paying audience

per production dollar whether the advertiser provides that dollar, or the independent publisher or movie producer?

C I am glad you asked that question. I respect Mr. Ewald's views, but I feel that he is placing altogether too much blame on the advertiser for programming which he doesn't like. Take television, about which Mr. Ewald complains so eloquently. Now, there are a great many programs on television, perhaps the majority, which I don't care for, but I do not have to watch what I do not like, and there is enough of what I do like on the air to make TV viewing worthwhile on occasion. The fact of the matter is that the majority of viewers simply do not like the kind of program that Mr. Ewald and myself would probably prefer—as many producers of so-called “cultural” programs have found out by losing money. And it is the producer's job, whether he is investing his sponsor's money or his own, to give the consumer what he wants. To a large extent, I believe that TV is doing just that.

E That assumes that any mass medium can only make money with deficient products. I do not agree that this need be so. The box office success of such first-rate movies as *Room at the Top*, *A Place in the Sun* and *Some Like It Hot* clearly shows that the American public is often quite willing to pay for genuine quality. My point is that an advertiser will be less likely to risk his money on quality—especially if this involves controversial ideas—than the consumer himself. With the advertiser in control of the financing, the consumer is less likely to be given an opportunity to select a quality product.

Q *Would you agree with this, Prof. Clarke? Does the consumer have less choice in advertiser-financed media than in those for which he pays directly?*

C Well, I would agree with Mr. Ewald to this extent. The consumer has less choice in television than he does in newspapers, magazines or movies. When it comes to magazines and newspapers, the consumer can choose from among a fairly large variety of views—and this in spite of the fact that these media depend on advertiser dollars for

between one-half and two-thirds of their operating expenses.

E I do not agree that the trend toward less choice is confined to radio and television. In the case of newspapers, there has, in recent years, been a distinct trend toward one-paper towns. Even in magazines, where the trend is not quite as pronounced, there has been a marked decline in the number of mass-circulation publications sold on the average newsstand.

C I agree that, as far as mass-circulation publications are concerned, the degree of choice available to the consumer may have narrowed considerably as a result of newspaper mergers and the rather high mortality rate of mass-circulation magazines. But there is a paradox here. The consumer, *as an individual*, has many more specialized publications to choose from which cater to his business and his artistic, sport or literary hobbies. And we haven't yet talked of the paperback revolution in books which is providing a very sizable readership with literary classics at moderate cost.

E But is this really a cause for optimism? You cannot reach the majority of people with these more specialized markets. Trade magazines, textbooks, training manuals and that sort of thing are something else again. But these are not what I am concerned about. Nor am I worried about the cultural diet of the small minorities who pick up literary magazines, who are fortunate enough to attend good plays and who are not dependent on the local drug store for their supply of paperback books. What bothers me is that the average American living in a medium-sized town will probably never be exposed to the quality choices Prof. Clarke speaks of.

Q *And it is your opinion that the increasingly important role of the advertiser is contributing to this decline of genuine variety in mass media? Why should an advertiser who is interested in selling toothpaste or deodorant tend to stress conformity in mass media?*

E Of course, this is not always the case. Some advertisers even go out of their way to sponsor television programs which are controversial or which will only appeal to a minority market. The makers of Hallmark

greeting cards, for example, have been quite happy to sponsor programs with relatively low ratings so long as this "small" audience bought their product. And many "institutional" advertisers—that is, advertisers who do not sell consumer products—are more interested in projecting a "quality image" of themselves than in getting the largest possible audience for the programs they sponsor. Companies like Standard Oil of New Jersey, Firestone, Armstrong Cork often sponsor programs with relatively low ratings.

C I am glad you brought that up, for I am not at all convinced that the advertiser always encourages conformity. I certainly don't believe that this is true of magazines. When *Reader's Digest*, for example, finally decided to take advertising a few years back, this did not affect the kind of articles this mass-circulation magazine—the biggest in the world—was able and willing to print. Nor, apparently, did its readers feel that the editors had in any way surrendered to the advertisers.

E But on TV, I think that even a few critical letters will often frighten a sponsor sufficiently to withdraw from a controversial show. That is why there is such a shortage of plays which deal honestly with a racial theme.

The question of built-in censorship

Q *Well, there may be a good side to this. After all, if sponsors are so anxious not to offend anybody this may not make for exciting or controversial programs. On the other hand, it also excludes prejudice and hatemongering from the airwaves. Do you agree?*

C Yes. Moreover, the choice ultimately comes from the people who listen to the programs, not from the advertisers who simply cannot sell products unless they please as many people as possible.

E I am not willing to let the advertisers off as easily as that. Much of the sponsor's censorship on TV is just silly. When Camel cigarettes sponsors a *Playhouse 90* production, no player can use the word "lucky" because that might suggest a competing brand. Even more ludicrous is the famous *Studio One* production of Kipling's *The Light that Failed*.

Westinghouse, which sponsored the production, insisted that the name be changed because Westinghouse lights never fail. More disturbing than this kind of nonsense, however, is the built-in censorship that exists in any mass media, particularly in TV. Writers would prefer not to discuss certain topics than to battle with the censorship departments of their networks.

C There is probably a good deal of such built-in censorship in our mass media—certainly more than I think is healthy. But I think the producer, writer or journalist of real courage can still find an outlet for his views. In fact, there is more courage and candor in our mass media than Mr. Ewald would have us believe. Television's coverage of the news, and its many fine documentaries, is generally of a very high caliber indeed.

E I would agree with you on that. In fact, I think that there is more honest and impartial reporting on television than in many newspapers and magazines.

C I would not want to confine my remarks to news. If our mass media are not doing as good a job as they ought to—and, mind you, I am not sure I would subscribe to such an over-all indictment—part of the blame must be borne by those of us who are satisfied with inferior material. It is all very well to blame the advertiser for playing it safe and encouraging the media to do likewise, but honest criticism must take into account the very real economic problems that confront commercial sponsors. It is true that advertisers will not, as a rule, support a network program that cannot attract a weekly audience of at least 12 or 13 million. Those who criticize such a quantitative yardstick have not usually been faced with the problem of spending an advertising budget.

Q *Aren't the economics of such quantity yardsticks somewhat irrational? Just because an audience accepts a sponsor's program does not mean that it will buy his product.*

C This is the nub of the problem. The plain fact is that we still do not know very much about the economic function of advertising. While there has been a great deal of study of this problem, both in the ad-

vertising profession and in the business schools, we still do not know what the precise relationship between advertising dollar and sales result really is. How important is the commercial message and how important is the program on which that commercial appears in moving a certain product? We do not really know, and until we do most advertisers in the mass media will continue to seek the largest possible audience for their commercials.

Mass programing and mediocrity

Q *There is one question which we have thus far studiously avoided: Must mass programing always tend to be mediocre?*

E I think this is true by definition. Appealing to a mass audience requires you to appeal to those things which this audience has in common—and this is not likely to be great art or profound thought. I know that it sounds antidemocratic to say so, but the great cultural contributions of the past have never enjoyed wide popular acceptance. This is true even of Shakespeare, whose plays enjoyed popularity largely because of the low comedy he managed to smuggle in. What worries me about the mass media is that they make it more difficult, in my opinion, to give the Shakespeares of our own day a mass audience. And I don't think that this situation benefits either the potential Shakespeares or the rest of society.

C There is something to what you say, but I don't think the situation is nearly as serious as you indicate. The artists, poets and thinkers of the world have always had to struggle—often unsuccessfully—to get a public hearing. I don't think that the difficulties facing them today are greater than 400 years ago. But I agree that the mass media are not, at present, the most likely place for their output.

E I don't think that you can blame this situation entirely on the advertiser or on the consumer, for that matter. More and more of the stuff that goes into our mass media is produced by groups who endlessly debate on what should and should not go into a news story, a magazine article, a TV program or a commercial message. The result often reminds one of the definition of a camel as an animal built by

committee. A camel is a clumsy animal and it does not have that race horse quality I should like to see more of in our mass media.

C I agree with you wholeheartedly on this issue. As you know, brainstorming or group-think is no longer in vogue in the advertising business. Perhaps we Americans have become too addicted to doing things in groups. Thinking remains a lonely and individual process.

E I think the problem goes deeper than that. For, when our plays, comedies and even opinions are "manufactured" by groups, we cannot hold anybody responsible for them. And if nobody is responsible for them, then everybody is. Let me show you what I mean. Let us say a network produces a documentary on desegregation in the South, which stirs up controversy. Such a program probably involves the active participation of many people and groups. Now, if we do not know who was responsible, then everybody—writer, producer, director, network and sponsor—will have to share that responsibility. Under such circumstances, it is small wonder that so few controversial programs get on the air. Courage does not flourish in a committee atmosphere.

The future of mass media

Q *If I understood correctly, both of you agree that the state of our mass media leaves a good deal to be desired, although Prof. Clarke seems more satisfied with what has already been accomplished. How do you feel about the future of our mass media? What can be done to improve them?*

C I am optimistic. We must remember that television is still a young medium—an adolescent which has not yet reached its 15th birthday. As for the other media, I see many hopeful signs. First, there are the paperbacks, which are putting literary masterpieces, together with a good deal which does not fall under that category, into the hands of millions who would not otherwise come in contact with such works. Some of the mass media, moreover, have shown a distinct improvement in recent years—I am thinking here of radio and even of motion pictures. Newspapers give more foreign coverage than ever before and,

while there may have been some decline in editorial diversity, I do not believe that the average newspaper reader is today worse off than he was 20 years ago. As for magazines, I agree that the mass-circulation publications will continue to shy away from intellectual non-conformity. But I think that Mr. Ewald underestimates the importance of the more specialized magazines which are flooding the market and which do fill very important needs.

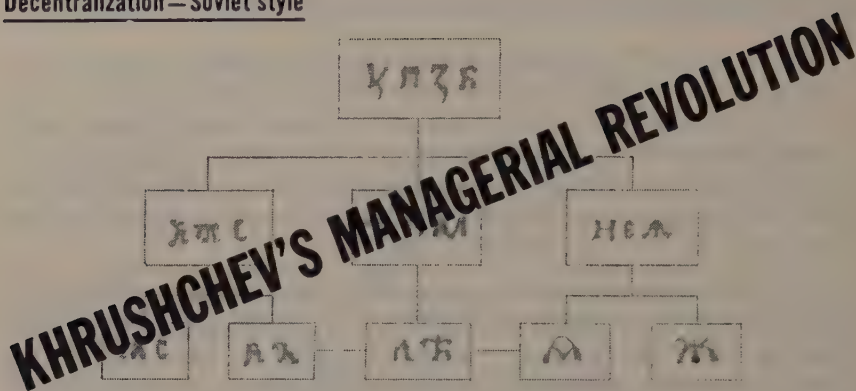
E I am afraid that I cannot share Prof. Clarke's optimism. So far, the trend has been pretty disheartening, and I see no reason for believing that things will get very much better. In television, for example, costs are climbing all the time. And as your costs go up, the tendency for advertisers to seek the largest possible audience and play it safe will, if anything, accelerate. While it is true that newspapers often provide excellent news coverage, they do not provide the "free competition of ideas" that democracy requires. And here, too, high costs, which encourage mergers and force publishers to rely increasingly on advertiser revenues, are not likely to promote editorial courage. More and more, mass magazines are being conceived almost exclusively in terms of product markets for advertisers rather than of potential readers of an editorial message. And while there has been an improvement in some mass media—notably FM radio and independently produced motion pictures—this is true only because these media have lost some of their "mass" quality.

Q *Well, what can be done about this situation? How can mass media adjust to conditions and still improve the quality of their output?*

C I think that there are many ways of improving the quality of mass media, as long as we don't approach this problem with preconceived notions of what is culturally "good" or "bad." The main thing is for the mass media to increase flexibility and do a greater variety of things.

E I go along with you on that, except that I do not see how this can be done without changing the structure of our communications industry.

Q *Thank you, gentlemen.* ■



by Howard R. Swearer

■ ONE OF THE most radical reforms instituted by Nikita S. Khrushchev since taking over the reins of government in the Soviet Union has been the redrawing of the organizational charts of industrial management.

The reigning organizational principle for the previous 20 years—specialized vertical management by product—was replaced virtually overnight by a concept of nonspecialized, all-embracing regional administration. Thousands of bureaucrats found themselves scattered throughout the country when their industrially specialized ministries were replaced by 105 (now 102) regional economic councils or *sovnarkhozy*. Each *sovnarkhoz* supervises the full range of major industry within its territory.

This managerial upheaval was connected in part with a power play by Khrushchev to outmaneuver his Presidium opponents. At the December, 1956, meeting of the Communist Party Central Committee, Khrushchev found that, as a result of the Hungarian uprisings and domestic disturbances occasioned by his de-Stalinization campaign, his authority and prestige were seriously jeopardized. Applying the military maxim that the best defense is a good offense, he swiftly and vigorously pushed his radical plan for industrial reform during the early months of 1957.

The industrial reorganization, however, was far more than an act of political expediency. It was designed to correct a number of

real political, organizational and economic problems. Politically, the reorganization strengthened the power of the party apparatus over the national economy by enabling regional party secretaries to participate more effectively in the supervision of industry. Previously, a regional party secretary was hampered from influencing important industry in his area by a number of insulated managerial chains culminating in Moscow.

Now a local secretary may exercise considerable influence upon his counterpart regional economic council. The party secretary is charged with monitoring the fulfillment of production plans and, above all, the protection of state interests as outlined in the national economic plan. Party organizations within the *sovnarkhoz* and within enterprises help to keep the secretary informed of the state of the economy.

It is clear that the regional party secretary has a more important position in the ruling regional oligarchy than does the *sovnarkhozy* chairman. The responsibility for economic failure often weighs more heavily on the party boss.

These expanded obligations and opportunities for influencing economic activity have put a considerable strain on the monolithic discipline of the party apparatus. A regional party secretary almost inevitably suffers to some degree

from a conflict of interests and loyalties. On the other hand, by overactivating the party's supervisory role in industry, he is likely to harass and alienate industrial management. Thus the new system has been a mixed blessing to the party leadership.

The *sovnarkhoz* plan was also intended to remedy several serious defects of a ministerial system originally designed to direct the relatively simple economy of the 1930s and 1940s. During these two decades the Soviet economy was undergoing a forced-draft industrialization which required strict and detailed central control over allocation of resources. But as the Soviet industrial machine matured and became more complex, the highly centralized and specialized ministerial system became increasingly cumbersome.

The concentration of staffs and detailed operational decision making in Moscow stifled local initiative and encouraged the growth of deadening red tape. Each ministry jealously protected its own enterprises and attempted to become as self-sufficient as possible. This ministerial "parochialism" caused uneconomic production and irrational trade patterns. The wrangling of nearly 40 industrial ministries in Moscow made it extremely difficult for top-level leadership to obtain a clear view of the total economy.

Although announced with dramatic suddenness, the administrative reform did not spring full-blown from Khrushchev's brow. It was heralded by previous efforts to rationalize the cumbersome administrative apparatus. Ministries were almost continually merged and split; and there was considerable experimentation with the State Planning Commission (*Gosplan*) and with high-level state committees for coordinating various functional aspects of the economy. Moreover, as a direct harbinger of the 1957 reorganization, there was a marked trend toward decentralization. Several all-union ministries were turned into union-republic ministries, an action which put much day-to-day executive decision making in the hands of the republics.

Regional councils

The creation of regional economic councils struck at the roots of ministerial shortcomings by bringing management closer to the grass roots of production and by making *sovnarkhozy* the general managers of all types of industry. Because they are on the spot physically, *sovnarkhozy* chairmen are able to facilitate production by timely decisions. The broad range of industry under a *sovnarkhoz* enables it to better coordinate the various branches of the economy. Relations among plants within an

administrative economic region have been more rationally ordered.

The new managerial setup, however, has created its own problems. The "parochial" approach of a ministry interested only in promoting its own enterprises has been replaced by the phenomenon of "localism," an outlook which puts the interests of the region ahead of those of the nation as a whole. One economic region may frequently give low priority to deliveries to other regions. The production of goods not in demand by the industry of one region may be discontinued even though they are vital to another. Investment funds may be diverted from heavy industry of vital national importance to construction of local benefit only. A *sovnarkhoz* may strive for economic self-sufficiency, even though it is uneconomical, because it does not wish to rely on its neighbors. This attitude is summed up in a popular saying, "One's own shirt is closer to one's body."

The multitude of existing economic regions makes inter-*sovnarkhozy* coordination of production more difficult—and more important. The problem stems from the fact that economic administrative regions were not formed on the basis of economic criteria, but on the lines of existing party and government administration.

The industrial reorganization is also an expression of the regime's

search in recent years for a more workable balance between central control and local initiative. The post-Stalin leadership has shown an awareness that overuse of central fiat yields diminishing returns. It has attempted a cautious decentralization. This is not intended to weaken central control but to make it more effective by removing unduly restrictive regulations, by giving more recognition to local peculiarities and by concentrating central authority in fewer hands.

The aim has been to bestow more implemental authority on lower echelons while retaining sufficient power in Moscow to ensure that the "command economy" is not jeopardized. It should be noted that authority has not developed very far down the administrative hierarchy. A *sovnrarkhoz* is financed by, and responsible to, one of the 15 Soviet republics. Suggestions that administration be further diffused by placing *sovnrarkhozy* under provincial control within the republic have been emphatically rejected.

Powerful check

Moreover, the State Planning Commission (*Gosplan*) has been reconstituted as a powerful check on local officials. *Gosplan*, which inherited significant powers and personnel from the defunct ministries, has emerged as a strong central directorate for setting and en-

forcing national priorities. It is aided by other central agencies such as the Ministry of Finance, the Commission of Soviet Control, the State Bank and inspectorates.

The extent of *Gosplan's* power may be judged by the intensity of attacks leveled against it publicly by *sovnrarkhoz* officials who chafe under its regulations. The appointment of V. N. Novikov in early May, 1960, as chairman of the U.S.S.R. *Gosplan* brings to this important post a man who himself has had experience as a *sovnrarkhoz* chairman in Leningrad. While he may thus be more sympathetic to the difficulties of the *sovnrarkhozy*, he is also intimately aware of the various evasions of central authority practiced by local officials.

The industrial reorganization may, in the long run, act as a catalyst for more far-reaching alterations in the economy; but in itself was primarily an endeavor to breathe new life into the industrial administration by restructuring the linkage between the center and the plant. More drastic remedies, such as price rationalization and substantially increasing the rights of plant managers, have not been affected despite public discussion of such measures in 1956-57. Perhaps the leadership does not wish to attempt further modifications until the reorganization is fully digested.

Perhaps the major change from the point of view of the plant manager is the fact that the administrative umbrella is now physically closer to him and that his superiors, in all probability, are more familiar with his situation. This may facilitate his job, but it may also make it more difficult to pull the wool over the eyes of his superiors.

The establishment of the *sovnarkhoz* system has provided plant managers with more elbow room for operation. The increases in plan goals have been somewhat reduced (resulting in overfulfillment of plans) and managers have been granted authority to redistribute some parts of their budgets and to maintain material reserves. These relaxations of central direction have given managers somewhat more flexibility and have reduced a bit the necessity of conducting illicit transactions in order to meet plans.

Nevertheless, the management of the individual production unit has not been fundamentally altered. Many of the perennial habits of Soviet enterprises remain. Among these are: hoarding; "storming," or breakneck production at the end of each month to meet the plan; the use of *blat*, employing influence for illegal or semilegal dealings; the employment of *tolkachy*, the Soviet version of the fixer and five percenter; *strakhova*, or in-

surance against unattainable plans by understating production capabilities and overstating supply needs.

It should be emphasized that the function of the manager and the *sovnarkhoz* chairman remains the fulfillment of production priorities established by higher echelons. Although the bonus system, probably the key incentive available to the Soviet manager, is being employed with more finesse and is more closely linked to such criteria as costs, it remains closely geared to the achievement of production targets, often to the sacrifice of quality and variety.

Insignificant sums

The Soviet industrial reorganization does not signal the development of a consumer-oriented economy. The Soviet press, it is true, has condemned the unauthorized diversion of investment by *sovnarkhozy* from heavy industry to projects of local interest. But the examples cited indicate the sums involved are relatively insignificant and are not devoted to consumer goods but to construction of bridges, rest homes, theaters and *sovnarkhoz* headquarters.

As consumer goods have become more plentiful, the Soviet consumer has been able to exercise more discretion in his purchases; on occasion he has even rejected particularly shoddy products. How-

ever, there is still a sellers' market in the Soviet Union, and quality and assortment are frequently sacrificed for the sake of the production bonus.

In some respects the managerial reform can be viewed as the application of a crude but effective technique for bureaucratic refurbishing widely employed in the Soviet Union and elsewhere: reorganization for reorganization's sake. When lines of communication become choked, when informal protective associations are solidly entrenched and administrative immobility becomes chronic, reorganization *per se*, no matter what the specific rationale of the moment, may be deemed desirable. The release of new energies and talent, the dismantling of mutual

protection societies, the benefits of a fresh perspective and the general personnel movement of a bureaucratic upheaval, often considerably outweigh the costs in delays and confusion of a major reorganization.

As indicated above, the reorganization corrected some of the flaws of the ministerial system, but at the same time it raised new problems. Thus far these problems have been held within bounds. When they become too difficult—when it becomes apparent that specialized industrial branch interests again need greater representation—further administrative reshufflings may be expected. One of the most permanent features of Soviet bureaucracy is the impermanence of its organization. ■

Automatic Translations

U.S. SCIENTISTS AND ENGINEERS have developed a machine which translates Russian texts (whether from novels, newspapers or scientific journals) into English at a speed of about 40 words per minute. At present, the machine has a 55,000-word vocabulary which is recorded on disc-shaped glass dictionaries. A typist, who need not know Russian, copies the text on a typewriter that converts Russian characters into holes on a paper tape. The tape is then coded into electrical signals which the machine compares to the words and phrases coded on its disc-shaped "dictionaries." The machine makes a rough, but understandable, translation into the English language. By making vocabulary discs of other languages, the machine may be used to translate any tongue without making any major modification. Modifications to be made later this year are expected to give the machine a 500,000-word vocabulary and a translating speed of 2,400 Russian words and idioms per minute with greater precision and better grammar.



**Congressional
issues**

An increasingly election-conscious and adjournment-minded Congress has several key economic issues it must consider before it can go home to campaign. These issues include social security liberalization, federal aid to education, raising the minimum wage and broadening its coverage, additional support for urban renewal and home mortgages, lifting the bond interest ceiling and medical aid to the aged.

**the
Administration's
position**

Except for its request for a rise in the four and one-quarter per cent ceiling on long-term government bonds, the Administration is either totally or partly opposed to these measures. Even a few compromises, however, could upset the already precariously balanced budget for fiscal 1961.

**the
Democrats'**
strategy

The Democrats, for their part, are divided on their strategy. The moderates, led by Senate majority leader Lyndon B. Johnson (D.-Tex.), are inclined to compromise with the President in order to get *some* legislation passed. They can then go to the voters as the architects of a constructive program. Liberal Democrats such as Sen. Hubert H. Humphrey (D.-Minn.) feel that the best strategy is to present the President with measures he will probably veto and thus sharpen the election issues between the parties. Whatever the

outcome, these issues must be faced. If no legislation emerges now, the 87th Congress will be confronted with them when it convenes next January.

**FRB
actions**

The Federal Reserve Board has now apparently concurred in the view many businessmen and economists have been expressing for months: the threat of inflation is over, at least temporarily. In early June, the FRB approved a cut in the discount rate from four per cent to three and one-half per cent in San Francisco and Philadelphia, and the other 10 district banks are expected to follow suit. There were also rumors in Wall Street that the FRB planned to cut the 90 per cent margin requirement on stock purchases to 70 per cent.

**steel
down;
autos
up**

The FRB's apparent caution is based on the inconclusiveness of economic indicators. Although steel production was down to 62 per cent of capacity in early June, auto sales were running at a projected annual rate of 6.7 million cars—which, if maintained, would make 1960 the second biggest auto year in history. An optimistic Detroit scheduled June production at 631,000 cars, the highest June volume in five years. Steel, too, is bound to pick up, since manufacturers are dipping into their inventories and using 15 per cent more steel than they were buying.

**the
mixed
outlook**

New construction rose to \$4.5 billion in May, a 10 per cent increase over April, but this was still five per cent under May, 1959. Freight carloadings and machine tool orders were both down sharply. The former could be traced to the low steel output, but the decline in machine tool orders indicates that businessmen are not too optimistic about the business outlook. A recent survey by the National Association of Purchasing Agents revealed that 47 per cent of its members believe business will be better in the second half of 1960 than in the first; 39 per cent saw no change and 14 per cent thought it would be worse. ■



A New Source of Employment STABILITY?

by James W. Knowles

■ ARE CHANGES OCCURRING in the structure of the American economy which tend toward greater stability in employment? Periodically this question becomes the subject of debate. Those concerned with the workings of our free enterprise economy are constantly searching for ways to stabilize employment and thereby reduce the hardships accompanying periodic contractions in output and incomes.

Since the enactment of the Employment Act of 1946, the creation of conditions favorable to increased stability in employment has been a prime objective of national economic policy. It would be a matter of great significance, therefore, to both public and private policy making if it could be determined that the changing structure of the economy is suc-

ceeding in producing such conditions.

Stability of employment can have more than one meaning. It is important to recognize that in a growing economy like ours the number of people able and willing to work increases each year as the population in the working-age group increases. Moreover, year by year, technological progress and improvements in the health, education, training and experience of the labor force, and better managerial techniques make it possible for the same number of workers to produce more goods and services. To have meaning, therefore, in terms of efficient use of our labor resources, stability of em-

The views expressed are those of the writer and not necessarily of the Joint Economic Committee or individual members of that Committee.

ployment must mean stability in the *rate* of use of our growing labor force. Real stability of employment implies that employment opportunities are growing in line with our growing labor force and with a decreasing sensitivity to occasional recessions in demand, such as those of 1949, 1954 and 1958.

It is widely believed that recent economic trends point toward greater employment stability in this sense. Those who hold this view cite a growing shift in employment from manufacturing, mining, construction and transportation toward service industries; they point out that service-type industries tend to be less subject to cyclical fluctuations than goods-producing industries. Employment in services, they argue, either does not decline in a recession or declines relatively less than the average.

Even within the so-called cyclically unstable industries, particularly manufacturing, employment has been shifting from blue-collar workers toward professional and clerical employees who are less subject to cyclical variations in employment than the production workers they displace.

What are the facts behind these assertions? The experience of the 1957-58 recession can be used to illustrate the general pattern of stability shown by various indus-

tries or occupations. On an annual basis, the economy's total output of goods and services in constant prices declined about two per cent from 1957 to 1958, while total man-hours worked in public and private employment declined about 4.5 per cent during the same period. About 70 per cent (1.3 million workers) of the decline in unemployment was accounted for by the decline in blue-collar jobs in manufacturing.

About three-fourths of this decline in the number of blue-collar jobs was in durable goods manufacturing industries. The other large declines were in mining, non-durable goods manufacturing and transportation. *In total, mining, manufacturing and transportation accounted for over 99 per cent of the total decline in employment.* About 94 per cent of the decline in manufacturing employment resulted from layoffs of production workers, and only six per cent from a reduction in the number of white-collar workers. Outside of mining, construction, manufacturing and transportation, employment declined by only *four one-hundredths of one per cent*—a loss of only about 15,000 jobs out of almost 42 million.

It seems safe to conclude, then, that white-collar workers generally, and particularly those in service industries, enjoy greater employment stability than blue-col-

lar workers in manufacturing, mining and transportation. But before we can conclude that this means our economy as a whole is moving toward greater stability, we must determine whether or not there really has been a marked shift away from blue-collar to white-collar work.

In 1869 workers in manufacturing, mining, construction and freight transportation constituted approximately 23 per cent of the labor force. By 1919 they accounted for about 36 per cent. Over this period, then, the proportion of the labor force exposed to unstable employment increased. But since 1919, this proportion has leveled out. The upward trend in output of manufacturing and other cyclically sensitive industries has continued to be quite rapid, but this has been largely due to technological progress. The *proportion* of the total labor force employed in these industries has remained relatively unchanged for the last 40 years. If anything, the proportion has tended to decline a little in the last decade.

Countercyclical tendency

Furthermore, one of these industries, construction, has developed a countercyclical tendency. A substantial proportion of the employment in this industry is devoted to the construction of residential housing. The ceiling on

interest rates for government-guaranteed mortgages during prosperous times, when interest rates usually rise, tends to reduce the availability of credit and, hence, demand. In recessions, however, interest rates usually fall, and funds flow freely into the residential mortgage market. Hence, the construction industry tends to expand when other industries contract.

Looking at employment trends in another way, we see that over the first half of the present century manual workers, farmers, laborers and farm operators declined from almost three-fourths of the labor force to about three-fifths. Meanwhile, the proportion of service and white-collar workers increased. In 1919 employees in service-type industries constituted about 24 per cent of the labor force; by 1957 this figure had reached as high as 44 per cent. The proportion of self-employed workers in business and the professions also rose slightly over this period.

However, the picture is not quite as favorable to increased stability as this tendency would seem to indicate. The proportion of the labor force engaged in manual nonfarm work actually increased from 1900 to about 1920, and has since remained stable at about two-fifths of the working force. The decline in manual work

in total is due entirely to the decline in employment in agriculture from about 37.5 per cent of the labor force in 1900 to about 12 per cent in 1950. These tendencies have continued over the past decade. The volatile part of manual employment is in nonfarm occupations since employment in agriculture is almost completely insensitive to the business cycle. The decline in agricultural employment, therefore, has increased the exposure of the labor force to possible cyclical instability of employment.

Effect of shifts

As far as the labor force as a whole is concerned, employment shifts so far have had the effect of holding approximately constant for four decades the proportion of workers employed in cyclically unstable industries and occupations. A more important question is: What tendencies are probable over the next decade or more?

Department of Labor studies indicate that the very slight tendency of the last decade toward a decline in employment in cyclically unstable occupations can be expected to continue, and perhaps accelerate. Although the proportion of the labor force engaged in cyclically stable agriculture is expected to continue to decline over the coming decade, employment in service-type industries is ex-

pected to increase. Employment in service-type industries, as defined by the Department of Labor, is expected to increase almost twice as rapidly as employment in the goods-producing industries over the next 15 years. By 1975 almost three-fifths of the total labor force should be employed in services. Employment in manufacturing, on the other hand, is, at best, expected to remain at about the same proportion of the labor force as in recent years, while employment in transportation, public utilities and mining industries will grow at a somewhat slower pace than the labor force.

As for occupational trends, it seems probable that professional, office, sales and other white-collar occupations will grow rapidly, while manual occupations as a proportion of the total labor force are likely to diminish. Most labor force analysts believe that the occupations that will grow in importance over the next decade are those that require the most education and training—that is, those occupations that have in the past enjoyed the greatest employment stability. A rapid expansion of research and development activities, automation, record keeping, and educational, medical and other services should accentuate this trend toward more stable white-collar employment.

But the fact that employment is

tending to shift toward industries and occupations which in the past have provided the most stable employment opportunities, does not necessarily mean that there will be increased stability in total employment. As a higher percentage of the labor force finds employment in occupations and industries which have been less sensitive to declines in demand for goods and services, these industries, themselves, are likely to change.

For one thing, there will be an increase in the proportion of their total costs which remain relatively fixed in the face of falling sales. Hence, as employment tends to become more stable, profits tend to become more unstable. The employer, therefore, will want to find means of protecting himself against the increased hazard of loss due to the growing proportion of such relatively fixed costs as wages, unemployment benefits and

the like. It may well be, for example, that hours of work may turn out to be much more flexible in some of these industries and occupations than in the past, thus offsetting some of the stability of employment.

Or, employers may find new ways of using part-time workers, especially women and teen-agers, who will make up a growing portion of the labor force over the next decade. In the face of falling demand the employer could reduce the work given to part-time workers. This in itself might have important economic and social consequences. Employment could become increasingly stable for full-time workers, mainly heads of households, while those seeking work to supplement family incomes will find opportunities for such work more numerous but much more cyclically sensitive than in the past. ■

Optic Aid

U.S. OPTICAL FIRMS are perfecting optical devices that permit doctors, engineers, etc., to peer into previously inaccessible areas. The devices are slim, flexible glass ropes made up of glass fiber bundles that are capable of transmitting light and images around corners and over obstacles. The glass threads, so small that 250,000 are required to make a rope one-half inch in diameter, permit light to travel in one direction to illuminate a dark area, while carrying back images, made up of thousands of tiny dots, in the opposite direction. Uses for fiber optical tools include, at present, medical examination of body cavities and, in industry, inspection of remote parts of machinery, such as the inside of pipes and jet turbine engines. The U.S. Air Force has recently contracted the development of an ultrahigh-speed camera lens made of glass fiber that permits taking clear nighttime pictures without artificial illumination.

BIG ANSWERS

TO LITTLE

QUESTIONS

by Irving Roshwalb

■ "AND SATAN stood up against Israel and provoked David to number Israel. And David said to Joab and to the rulers of the people, 'Go number Israel and bring the number of them to me that I may know it.'"

Thus in the 21st chapter of *Chronicles* begins the story of one of the first recorded national censuses, a "Satan-inspired project" which brought a severe plague on the Israelites. Even today, in modern America, there are people who quote *Chronicles* to the census taker and refuse to cooperate in the devilish business of numbering our nation. But for the most part, though census takers are still at times greeted by irate housewives wielding brooms, bitten by dogs and chased by turkeys, opposition to the census idea has pretty well simmered down.

The first official U.S. census was conducted in 1790. It was born of the Constitutional directive that a census be conducted every 10 years to determine the representation allowed the several states in the national legislature. For a while the U.S. census stayed within the confines of this purpose. But by 1810 it had expanded to determine the age distribution of the population. By 1820 industry and national origin became issues of inquiry. And by 1890 the census taker went so far as to ask householders if they were harboring defectives in mind, prisoners, convicts or paupers.

After 1890 this sort of questioning was considerably curtailed. Not until 1940 did it branch out again—this time to include questions on employment. Today a major area of questioning concerns

housing and living standards. However, only a small proportion of the questions asked in the 1960 census were asked of the total population. This year, for the first time, the U.S. Bureau of the Census collected certain items of information from only 25 per cent of the population—including extra questions on housing facilities, work activities, education, income and method of transportation to and from work. Another 20 per cent were asked to enumerate such items as bedrooms and automobiles. And five per cent were asked about television, radio, washing machines, dryers, food freezers and air conditioning.

Collect and check

Another innovation in the methods of this year's census was the mailing of the forms in advance to each household. Previously the census taker asked all the questions. This year he merely had to collect and check the form. In this way, the individual was given a greater responsibility for the accuracy of his form. This was especially true for individuals who received a second form from the census taker (25 per cent of the population) to be mailed back to the census office. Of course, the census taker had to check on certain individuals many times to ensure receiving a properly filled-out form.

The current census operation used a staff of more than 150,000 enumerators to count an estimated 180 million persons. It was a considerably more complex task than counting a population of less than four million in 1790.

Field workers

The army of enumerators carrying out the field work for the 1960 census included housewives, teachers and the unemployed—all of whom worked for approximately \$13 a day. Their duties consisted of picking up and checking the basic forms, leaving supplementary schedules in one-fourth of the households, and transcribing all data to sheets to be processed by FOSDIC, an electronic computer built especially for the Census Bureau. The enumerators were assisted in difficult cases by a crew leader, who also spot checked their work. They were supplied with maps of their territories, and a special course of training was also conducted to help enumerators and reduce the possibility of error.

Errors creep in

But errors will creep in, despite extensive precautions to avoid them. Persons who maintain two homes, for example, might be counted twice. Parents sometimes seem to forget that babies are people, too, and should be counted

in the census. Individuals who are rarely at home, transients and floaters are also sometimes missed in the count. This year, however, elaborate measures were taken to find such people. On March 31 (called *T-night*—for transients) the Census Bureau placed tables in hotels, airline terminals, bus and train stations in an attempt to record all travelers away from home. Ten days later (*M-night*—for missions) the counters invaded missions, skid-row flophouses, and all such hangouts of floaters who have no permanent home address.

Another source of error can exist in incorrect reporting of housing facilities. The census attempts to minimize this sort of error by defining very exactly what is meant by specific facilities. Even so obvious a facility as the kitchen sink is very carefully defined. The 1950 census report delineated this homely item as follows: "A sink located in a hall, pantry, enclosed porch or room adjacent to the kitchen if used in the washing of dishes or cooking utensils is considered a kitchen sink. However, a sink located on an open porch, or a washbowl, basin or lavatory located in a bathroom or bedroom is not a 'kitchen sink.'" Such careful delineation is intended to reduce the margin of error in reporting such items as "kitchen sinks."

Although the individual is le-

gally required to provide the requested information, there has never been any recourse to the courts to enforce this requirement. Actually, the number of persons refusing to cooperate has been very small. A more difficult problem is that of securing *accurate* response. Questions about age and income, for instance, may often be answered slightly off the mark. (After the passage of the Social Security Act many people suddenly became 65 or older.)

But once people are convinced that their census forms are held in strictest confidence they are more apt to answer questions honestly. The disclosure of information about any individual is scrupulously avoided by the census. Not even the President of the United States, the FBI or tax-collecting agencies can tap census records for their own purposes.

The Bureau of the Census is constantly searching for ways to reduce errors of undercounting, overcounting and incorrect reporting, as well as errors occurring through the employment of sampling techniques. The 1960 census has a built-in evaluation and research program attached to it which has set itself the objective of measuring both the variance and the bias of statistics of the census programs. One of the devices used will be a re-enumeration survey. Interviewing, coding

and processing errors will also be examined for their effect on the accuracy of census data. A statistical quality program was designed to check the work done in the field as it was completed.

'Ground rules'

It is important that anyone using census figures understand a few of the "ground rules," particularly the definitions of the concepts involved. For example, between the 1940 and the 1950 censuses, the definition of what constitutes an urban area was considerably enlarged to include *unincorporated* areas with 2,500 or more inhabitants located outside urban fringe districts. Before that such areas were defined as "rural," since only *incorporated* cities, towns or villages of 2,500 or more inhabitants were classified as urban. Thus comparisons of data on the growth of urban centers can be somewhat misleading unless these revised definitions are clearly kept in mind.

Without an examination of a label's definition, it becomes a mad hatter's word, and it will mean exactly what the reader defines it to mean. Even when the meaning of a term seems self-evident, it may not mean the same thing today that it did a decade ago. Take, for example, the Census of Retail Business, which reports data for grocery stores. Comparing the sales of grocery stores in 1950 and

1960 is like comparing two different universes; for the growth of the supermarket has radically changed the "grocery business." The changing nature of the drug store and the entrance of the discount store into the department store business are other examples of terms that have changed in meaning. Careless use of statistics can be misleading.

The questions on the census schedule are aimed at giving the American people an accurate picture of the economic, social and political condition of the nation. Before a new question is added to the census form it must be proved that the question meets an important need for information. Advisory committees composed of statisticians, economists, government officials, businessmen and others who use the census material are consulted. The proposed uses of the material are investigated and carefully evaluated.

Charting the growth of the United States is an extremely complex undertaking. Through careful planning and efficient execution of its task, the Census Bureau continues to produce a wealth of information to serve the American people. There is no more valuable tool for those who wish to gain some understanding of the changing nature of the country than the decennial report from the U.S. Bureau of the Census. ■

From farmer to consumer



WHY THE PRICE GAP?

by the Editors of Challenge

■ SINCE farm income is steadily declining, the consumer might naturally assume that food prices should be coming down, too. But, as any housewife knows, one would be quite wrong in assuming such a thing. In fact, food prices have steadily gone up. The "spread" between farm value and retail food prices has never been so large.

Most of this increase in the price gap can be explained in terms of the increased costs of food marketing. In 1947 food marketing costs came to \$17.8 billion. By 1956 these costs had climbed to an astronomical \$47.7 billion—an increase of almost \$30 billion. Since 1947 the "middle-man's" bite out of the retail food dollar has increased by 75 per cent.

This fantastic increase in food marketing costs has paralleled the

growth of the giant food retailer. In the short span of five years (1952-56) the number of retail grocery stores grossing more than \$375,000 annually doubled while the *total* number of grocery stores actually declined by 80,000. These retail giants now enjoy two-thirds of the country's retail grocery business. With that kind of power they can and do develop their own product specifications and they are able to absorb wholesale functions and facilities. Without doubt they are the most powerful component of the entire food industry.

There is an obvious connection between the evolution of the mammoth food retailer and the increase in food marketing costs. But the entire blame for higher food costs cannot be placed at the door of the giant retailer. The response of the food manufacturers to new developments in re-

tailoring has also played a part in the spiraling marketing of costs.

Understandably, many food manufacturers have resented the retailer's "invasion" of the food industry. Formerly the manufacturer regarded himself as lord of the food domain. He felt that he could count on the consumer to ask for *his* product with a more or less predictable regularity. But now he is afraid that the consumer's loyalty has shifted from a particular product brand to a particular retail chain. This danger is aggravated when the retailers, themselves, become manufacturers and push their products at the expense of those of independent food manufacturers.

Staples and margins

In resisting the encroachments of the food retailer on what he considers to be his territory, the food manufacturer must observe two rules about the sale of food. The first is that staple food commodities generally carry relatively lower marketing margins; the more essential the product, the lower the margin. Flour, sugar and milk, for example, are essential staple products and marketing costs on these items remain relatively low.

The second rule is an extension of the first. The farther a manufacturer can get away from the simple handling of his commod-

ity, the higher his margin or profit will be. On first consideration, this rule may not seem apparent. Getting away from simple commodity handling involves processing, packaging and advertising. And these build costs into a product. How can increased costs contribute to a higher profit margin? Simply by forming a product "image" which promises the consumer better quality, greater convenience or a psychic satisfaction over and above the satisfaction to be found in the product per se.

Such an image differentiates a product from others similar to it and can bring a larger net profit to its manufacturer. For example, meat packers know that, no matter what the quality of their beef, fresh meat is a low-margin product. Between 1952 and 1956 they earned an average net profit of less than half a cent on each pound of meat sold. But profit margins on prepared meats are higher. Armour and Co., for example, has developed boned, precooked ham—"Ham What Am." It is still the same unglamorous shank end of a hog, but it nets eight cents a pound for Armour.

As a consequence, there has been a distinct trend toward dressing up staple products to give them a "personality." The trend, incidentally, makes a product's route from farm to dinner table more costly.

Some manufacturers believe the

trend hasn't accelerated fast enough. William Wood Prince, president of Armour, told a *Fortune* magazine writer that "20 years ago the flour millers and the meat packers were both in the same boat; both were dealing in bulk commodity products. Now look at the way General Mills has merchandised all sorts of new products. We had the same opportunity, but we are still selling the same old piece of meat!"

As a matter of fact, much of the food industry has been scandalously slow to adopt techniques used by other industries for decades. Meat packers, as Prince indicated, had seemed perfectly satisfied for generations to simply slaughter livestock and cut it up for delivery to retailers. It wasn't until 1958 that Armour launched a program to learn more about ways in which to improve the quality of the cattle it slaughters for beef. In other industries, quality control had been an obsession for years. It took the postwar surge of supermarket retailing to teach the food industry new efficiency methods and merchandising concepts.

As Prince suggests, General Mills and other one-time flour millers have taken the lead in merchandising new food products. The increase in marketing costs compared to farm value has been more dramatic in bakery and cereal

products than in any other food commodity. One Department of Agriculture publication points out that, "For some cereal products, packaging costs and advertising expenditures may be as large as the farm value of the grains used."

Psychological satisfaction

These costs have skyrocketed to such an extent because the manufacturers of cereal products are no longer content to sell a mere product. Like the cosmetics manufacturers and other big-budget advertisers, they seek to sell a psychological satisfaction as well. Where the cosmetics industry sells glamour and a promise of romance, cereal makers aim to convince a juvenile market that strength and integrity are inherent in their product. Apparently this line has succeeded, for gimmicky cold cereal packages account for 85 per cent of the sales in retail breakfast food departments. But in order to make their advertising line succeed, cereal manufacturers spend a greater percentage (5.2 per cent) of their gross sales for advertising than any other group of food manufacturers.

These same manufacturers also push the "appeal to the psyche" to an astonishing degree in developing their cake-mix packages. Vance Packard, in *The Hidden Persuaders*, has pointed this out.

The expensive business of image making has become the *sine qua non* in most food manufacturing.

The effect of all this on the consumer, besides raising the prices he has to pay for his food products, is to confuse him with a bewildering array of products, all different in appearance but often very similar in content. In 1928 the average housewife could choose from about 800 items at her neighborhood grocery store. Today the aisles of supermarkets open up never-ending vistas of more than 5,000 separate products. Manufacturers are engaged in a frenzy of competition to obtain space on these shelves for their new products as well as old products dressed up in new packages.

Significant edge

But, in spite of the frantic efforts of food manufacturers to engage the consumer's attention, the retailer is, for the most part, far ahead of the food manufacturer when it comes to actual profits. His profit edge over the meat packers is particularly significant. The profits of retailers have climbed spectacularly in the last several years while profits for the meat-packing industry have been declining. In 1947 profits of the three major meat packers (Swift, Armour and Wilson) were \$57,734,000, well above the \$47,989,000 gain for three retail chains (A&P,

Kroger and Safeway). In 1957 packer profits were down to \$21,830,000, while retail profits were up to \$91,809,000.

This profit picture illustrates the shifting roles of manufacturer and retailer in the food industry; it also explains the apprehension and resentment of the manufacturers. Rep. Victor L. Anfuso (D.-N.Y.), chairman of the Consumers' Study Subcommittee, described the fear of packers (who, incidentally, are kept out of food retailing by the terms of a consent decree signed in 1920): "Many packers. . .complain that they are increasingly becoming mere subcontractors for the big chains. . . Packers also complain that the prices they receive at wholesale from major food chains are, in effect, buyer-administered prices. Increasingly, they say, food chains bid for the output of meat packers on a dictated price, take-it-or-leave-it basis."

Rep. Anfuso went on to explain that many retailers operate their own packing houses as yardsticks for measuring the actual cost of meat processing in order to prevent independent packers from raising their prices. Moreover, the products from these retailer-owned packing houses are used for occasional sales at less than production cost. Sometimes these brands of meat are promoted at the expense of packer brands and labels.

It is interesting to note that, where the functions of the food manufacturer and the giant retailer do not overlap, marketing costs have stayed in line. The rise of the broiler industry is a good illustration, not only of the kind of cooperation which can exist among food producers, processors and retailers, but also of the benefits that accrue to the consumer as a result of such cooperation.

'Spring chickens'

In 1934 the broiler industry couldn't really be classified as an industry, since its product was readily available in only one season. "Spring chickens" were ordinarily sold by farm wives to earn extra money for themselves. The average American consumed more than 48 times as much pork as chicken that year. In 1957, however, the average American had increased his appetite for broilers so much that he filled his plate with them nearly half as many times as he did with pork. In spite of this increase in demand, retail broiler prices have held relatively steady and marketing costs continue to stay within focus. In 1950 (the first year such statistics were gathered) it cost 21.1 cents to market a pound of broiler meat. In 1957 it cost 22 cents. Meanwhile, retail prices had dropped from 48.5 cents to 47.9 cents. To be sure, farmers suf-

fered a similar drop—from 37.4 cents to 25.9 cents.

Marketing costs have remained stable in the broiler industry mainly because the industry regards itself simply as a commodity *handler*. It hatches, medicates, feeds, slaughters, transports and wholesales broilers. Different branches of the industry compete with each other only on the basis of price; they make no effort to compete on the basis of brand differentiations, attractive packaging and various other merchandising techniques. The merchandising is left to the retailer. All but a very small percentage of the broiler industry is vertically integrated—that is, the producer (farmer) has a contract to produce a specified number of broilers at a specified weight for delivery to a processor on a certain date. In turn, the processor usually has a contract, or at least a standing order, for a certain number of broilers to be delivered to a supermarket. Thus there is no overlapping of functions. The relations among the various components of the broiler industry have been compared to the relationship between an auto manufacturer and its various parts suppliers.

Therefore, it can be seen that the relationship between the manufacturing and retailing components of the food industry can have a vital bearing on marketing

costs. Where their functions do not overlap and where the manufacturer is content not to drift too far away from the business of simple commodity handling (as in the broiler industry), marketing costs can be kept down.

But where the functions of the manufacturer and the retailer *do* overlap—where the manufacturer struggles to keep his own identity and where the retailer takes over some of the functions of the manufacturer—an intense competition between components develops. Inevitably, marketing costs tend to go up, as the manufacturer feels he must make his own product's retail image shine brighter than that of the retailer's competing brand.

In the meat-packing industry, as Rep. Anfuoso points out, this means "the concentration of packer research and development programs on processed meats which can be merchandised under the packer's

own brand. Profit returns on such processed meats are clearly higher than on carcass or dressed meats." Price competition cannot play as important a role as brand competition among meat packers because a few big companies virtually control the entire industry.

It must be recognized, however, that the efficiency and stability of the broiler industry have been possible because the industry has allowed itself to be dominated by powerful retailers. It has accepted second-class citizenship by trying to adapt itself to specifications laid down by the retailers. Unfortunately for the consumer, it is unlikely that many more components of the food industry will want to follow the lead of the broiler industry in accepting such a relationship. It is much more likely that they will continue to build more and more costs into their products in an effort to beat the retailer at his own game. ■

Chain Reaction

THE FEDERAL TRADE COMMISSION'S recent report on the results of its research in the economics of food marketing reveals that the trend toward supermarkets has increased the expansion of chains. (The FTC defines a chain as a company which owns 11 or more stores.) In the decade since 1948, chain stores increased their dollar sales from \$7.8 billion to \$19.1 billion. In 1958 they made 43 per cent of total grocery store sales, compared to 34.5 per cent in 1948. The report also shows that unaffiliated food wholesalers have lost ground as food chains extend their central warehouse systems, directly supplied by food processors, to handle most of their merchandise.



PROSPECTS FOR PART-

TIMERS

by Thomas R. Brooks

■ THE PART-TIME WORKER has been an accepted part of the American labor scene for many years. Students working their way through school and housewives struggling to supplement an inadequate family income have long resorted to such time-honored part-time jobs as waiting on tables, clerking in stores, carrying messages, janitoring, etc.

These jobs are available to the part-time worker in greater numbers than ever before. But the part-time worker is no longer confined to them. Increasingly he is able to find part-time work on higher skill levels.

For example, a growing number of college and graduate students are managing to find part-time work within their field of study. A General Dynamics executive points

out, "It's very difficult to attract capable young men unless you are willing to make some provision so that they can go on with graduate work." A recent study of part-time women workers by the Women's Bureau of the U.S. Department of Labor shows them in a wide range of occupations including those of teacher, nurse (both professional and practical), librarian and social worker. Retired executives have become business consultants. Some busy and very successful employment agencies, such as the Kelly Girl Service and Manpower, Inc., work exclusively with part-time workers and firms who want temporary help.

Between 1947 and 1956, 6.3 million new workers joined the labor force. According to the Bureau of Labor Statistics, part-time work-

ers accounted for almost three million of this increase. Today part-timers number an estimated 12.1 million out of a total labor force of 73.6 million. The BLS estimates that the number of part-time workers will reach 15.9 million by 1970, an increase of roughly 30 per cent over 1960.

New additions

The increase in the *proportion* of part-time workers to the total labor force, however, isn't as large. This year 16.4 per cent of the total labor force is employed part time, and that proportion is not expected to exceed 17.6 per cent by 1970. But 29.6 per cent, or nearly four million, of the 13.5 million expected *new* additions to the labor force in the next 10 years will be part-time workers.

Two factors help explain this trend:

- More youngsters will continue their education than ever before. This means that the proportion of young part-time workers attending school will probably increase.

- Women have been entering the job market in ever-increasing numbers during recent decades. In 1940 only 25 per cent of all civilian workers were women. Today women workers make up 33 per cent of the civilian work force. Almost half of them are working part time; women represent about 60 per cent of the part-time labor

force. Thus, as the number of women workers increase (BLS projections point to an increase of six million by 1970), the total number of part-time workers is likely to increase as well.

The growth in the number of part-time workers has gone hand in hand with the expansion of employment opportunities in the service industries—hotels, restaurants, amusements, personal and professional services. Today 24.5 per cent of all workers employed in service jobs are working part time. If educational and professional services are excluded from this category, the percentage of part-time workers in the service industries goes up to 35.5 per cent.

This is in startling contrast to the small proportion of part-time workers in manufacturing—1.5 per cent in durable goods and 6.7 per cent in nondurable goods. The percentage is also low for transportation and public utilities (4.4 per cent), slightly higher for finance, insurance and real estate (8.9 per cent), and higher still for construction (12.2 per cent). In the wholesale and retail trades, 19.1 per cent of all workers are employed on a part-time basis; in agriculture the figure is 21 per cent.

Since employment opportunities in service industries are continuing to expand while they are declining in manufacturing and agriculture, this will no doubt

mean a further increase in the number of part-time workers in the total labor force. Moreover, if a shorter workweek in the goods-producing area becomes a reality, it is likely that more workers will spend their extra hours in part-time work elsewhere.

While it is true that part-time work is now available on a much higher skill level than formerly, it is also true that, for the most part, the skill level of the part-time worker remains very low. True, there are housewives today who work part time as real estate saleswomen, teachers and social workers. But many more of them are cleaning women or waitresses.

Largely unskilled

Statistics show clearly that, in terms of total numbers, the part-time labor force is still largely unskilled or at best semiskilled. Relatively few in the highly skilled professions are part-time workers—professional and technical workers (9.9 per cent), managers, officials and proprietors (4.5 per cent), craftsmen and foremen (1.9 per cent). Even the semiskilled do not have a high proportion of part-timers—only seven per cent according to government figures. A higher proportion of clerical workers (12.1 per cent) work part time, while 24.4 per cent of all sales workers are on part time. Almost 30 per cent of all service employees

(except household workers), some 34 per cent of farm laborers and slightly over 60 per cent of household workers are on part-time duty.

Since there are, numerically, more sales people, service workers, clerical help and laborers than there are professional, technical or craft workers, these figures suggest that the skill level of the part-time work force is not of the highest.

But as more young people continue their education, there is bound to be an increase in potentially usable skills. Women, who make up so much of our part-time work force, are likely to be better educated in the future, and are more likely to seek part-time work with higher status and higher skill requirements. Technological change will also create a demand for a new type of part-time employee. Key punch operators, for example, are already in great demand as part-time workers.

Of course, the part-time employment of marginal workers—students, housewives and the elderly—is clearly related to prosperity. When the economy is seriously depressed, such workers tend to withdraw from the labor force. "Moonlighting" (the practice of holding two jobs at once) is also sensitive to falls in the business barometer. During the last recession, the proportion of all employed persons holding two or more jobs fell to

4.8 per cent in July, 1958, from a high of 5.3 per cent in more prosperous 1957. Mostly, the second, or part-time, job was lost.

It would seem, then, that part-time workers have one effect on economic stability: the withdrawal of the housewife and student from jobs means a loss in family disposable income. This loss is not cushioned by unemployment insurance since most of these workers cannot collect compensation. This mitigates somewhat the stabilizing effect of unemployment insurance on the economy at the onset of a recession. The family cushion is deflated further when the main breadwinner loses a second job or faces a reduction in hours, or even a layoff in his primary occupation. Thus, during a recession, there may be more of a reduction in demand than is normally expected.

In contrast, during a boom, the additional income provided by extra, part-time earnings may create some additional inflationary pressure. This certainly would be the case in a traditional inflationary situation caused by too much money chasing too few goods. But I doubt if that has been the case

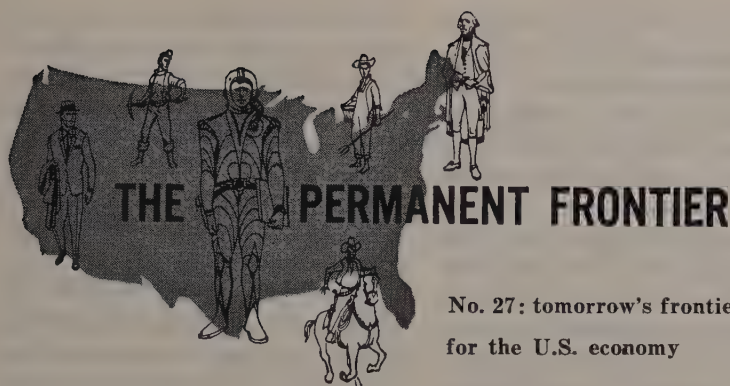
in recent years. Added income was needed during the last boom by the family to keep up with spiraling prices that were pushed up by other factors. All in all, part-time employment does not seem to contribute toward employment instability to any appreciable extent.

In fact, part-time employment has contributed toward *stability* by (1) filling in shortages where they exist; (2) providing job opportunities for women and students who bring added income to the family and help to finance education; and (3) enabling the aged to earn extra income to supplement inadequate social security payments.

Actually, one can argue that, while stability in employment may be desirable, stability in part-time employment is not. At a time when many sections of our economy are increasingly rigid—when labor mobility, for example, is frozen by the growth of seniority and pension rights—part-time employment unquestionably gives the economy a flexibility it otherwise would not have. Perhaps this is the real contribution of part-time work to economic health. ■

Underwater World

OCEANOGRAPHERS and underwater drilling experts are beginning work on the installation of underwater storage tanks for water, food, grain and medical supplies. The tanks will be made of rubber-impregnated and rubber-coated fabrics and anchored to the bottom of the Gulf of Mexico.



No. 27: tomorrow's frontiers
for the U.S. economy

■ THE CONCEPT of a permanent American frontier, as we have seen, is not only economic, but social and political as well. The U.S. Constitution, written in 1787 and amended 22 times, is a living document. It is constantly reinterpreted and amended to meet new conditions created by a dynamic society.

Last year, for example, Americans paid \$52 billion in income taxes under a law which had been declared unconstitutional by the Supreme Court only 66 years ago. This necessitated adoption of the 16th Amendment which went into effect in 1913.

The framers of the Constitution conceived of democracy in 18th-century terms. They did not envisage universal suffrage and believed that only responsible "men of property" should have a voice in government. All of this changed

with the emergence of universal suffrage during the Jackson era. Contrary to the dire predictions of Jackson's opponents, American democratic institutions did not flounder because of the extension of the ballot to the poor and uneducated; instead it enabled the underprivileged to better their lot and to educate themselves.

The durability of our political institutions was even more dramatically demonstrated by their adjustment to the rapidly changing economic, political and social developments of the 20th century. The economic reforms which characterized the administrations of Theodore Roosevelt, Woodrow Wilson and Franklin D. Roosevelt vastly increased the powers of the

This is the 27th and final article of a series which has dealt with the history and development of the United States economy.

Presidency, as did two World Wars and the subsequent cold war.

The emergence of the regulatory commissions—a unique combination of both administrative and judicial power—is only one example of the ability of American society to create new institutions to cope with new problems. From the creation of the Interstate Commerce Commission to regulate the railroads in 1887 to the creation of the Federal Communications Commission to oversee the airwaves in 1934, these agencies were set up to regulate those industries which, for technical and other reasons, could only operate as monopolies. This was the pragmatic answer of the American system—which did not *believe* in public ownership—to the problem of public control of industries in which competition was not feasible: power, telephones, television, etc.

Economic transformation

Most of our present-day economic problems have their roots in the great economic transformation which swept the U.S. after the Civil War. Between 1869 and the dawn of the 20th century, gross national product rose from \$10.5 billion to \$42.4 billion and national income from \$9.5 billion to \$37.6 billion. The U.S. became one of the world's foremost industrial powers.

This vast expansion would not

have been possible without the immigrants who came to these shores between 1865 and 1900 to seek new economic opportunities and the pioneering—for all their faults—of the men who created the great industrial corporations.

These industrial giants used the new technology—electricity, the Bessemer process, etc.—to create a system of mass production which brought expensive consumer durables such as automobiles within the reach of the vast bulk of the American populace. When Henry Ford instituted the almost revolutionary wage of \$5 per day in 1914, he envisaged a mass market for automobiles among American industrial workers. This mass market would not have been possible without the development of consumer credit which has enabled the average American to pay for an automobile out of current income.

During the past 15 years, the use of installment credit has spread to all kinds of appliances—washing machines, food freezers, television sets, et al. Outstanding installment debt totaled \$39.5 billion at the end of 1959 compared with only \$4.5 billion 15 years earlier, in constant 1959 dollars.

The development of mass production, mass markets and consumer credit has gone hand in hand with an income explosion. This income explosion, which saw

more than half of all American families with an income of over \$5,000 per year in 1959, has been accompanied by a vast reduction in income differentials through progressive taxation, minimum wage laws, and other government and privately sponsored measures.

Welfare society

The United States, at mid-20th century, has become a welfare society—but not a welfare state. It has a predominantly private enterprise economy in which the government assumes responsibilities that the private sector cannot or will not undertake. In 1959 this meant that \$97.6 billion, or approximately 20 per cent of a GNP of \$479.5 billion, went into the public sector of the economy—federal, state and local.

In addition to government-sponsored programs like social security, unemployment compensation and veterans' benefits, there has been a proliferation of private retirement, health and welfare plans. Most individuals are not, however, dependent on government, or on plans sponsored by their employers or unions to tide them over in times of crisis. In 1959 personal savings totaled \$23.3 billion.

As a result of the vast changes which have marked American life during the last generation, the U.S. has become an increasingly institutionalized society. Today,

our great industrial corporations are, in the main, run by professional managers who own only a very minute proportion of the enterprise they manage. The day of the owner-manager like Andrew Carnegie, whose personality and philosophy dominated corporate policies, is over. The stock of most of today's giant corporations is widely diffused among millions of shareholders who by themselves do not hold enough stock to give them a voice in management. Hence, the rise of a class of professional managers who run—but do not own—these industrial giants.

Contrary to popular belief, the major American corporations rely for the bulk of their expansion on the reinvestment of retained earnings and depreciation. During 1959, 61 per cent of all corporate expansion was internally financed compared to only 47.3 per cent in 1950. The nation's financial markets are an important but ancillary source of such funds. Corporate managers may come and go and stockholders may dispose of their shares, but the institution goes on although, as business failure statistics show, not forever.

American labor unions are also becoming increasingly institutionalized as the great organizing drives of the 1930s recede into history. The middle echelons of the labor movement are becoming staffed with men who are white-

collar functionaries like their counterparts in industry.

The mature and powerful American labor movement with its approximately 18 million members is not without problems. The unions, which have organized about 26 per cent of the labor force of 71 million, have reached the point where the workers most susceptible to unionization are already organized. In fact, there was an actual decline in union membership of about 400,000 between 1956 and 1958. The problem is compounded by the fact that approximately 60 per cent of the labor force is now in the service sector—compared to only 46 per cent 30 years ago. This trend toward services will continue as the goods-producing sector becomes more and more automated. And it is those predominantly white-collar workers in the services—salesmen, clerks, technicians, etc.—who are the least interested in unionization.

New problems

The institutionalization of corporations and labor unions has created new problems in collective bargaining. These problems are particularly acute in the more concentrated basic industries where equally powerful union and management bargaining teams vie with each other, often to the detriment of the public. When union members receive wage increases

which are not justified by productivity increases, and the companies compensate themselves by raising prices, many unorganized white-collar workers and pensioners—not to mention the unorganized consumer—suffer from the resulting inflationary spiral. If these powerful aggregates of economic power cannot solve their differences without strikes and without passing increased labor costs along to the public, government intervention to protect the public welfare is almost inevitable.

In an expanding, ever-wealthier economy, who is to reap the benefits and in what proportion? Americans are becoming increasingly disturbed over the future of a society in which a bricklayer or a truck driver may reap higher rewards than a college professor.

Resource allocation

This brings us to another great problem confronting American society in the 1960s: the allocation of resources between the public and private sectors of the economy. Even in a consumer-oriented consent society should the pursuit of more and more consumer goods be considered an end in itself? The electorate must decide if it wants to reallocate more of its resources to the public sector to accomplish tasks which private enterprise cannot undertake at a profit—the building of more schools, medical re-

search, salary increases for civil servants and economic aid to underdeveloped nations.

We have definitely been moving in this direction over the past 30 years, although government expenditures for nondefense items have only risen slightly during the past decade. We must now decide how fast and how far we want to go. If we want to accomplish many of the above mentioned goals in the near future, higher taxes are inevitable. But if the leaders of America convince the people that these goals are desirable and necessary, the majority of the electorate would undoubtedly be willing to sacrifice a new car or appliance to achieve them.

Another problem which confronts the American frontier of the 1960s is the human consequence of automation. Automation, which is essential to higher living standards and the productivity increases in which output per worker has increased fivefold since 1880, creates difficult adjustment problems, particularly among older workers. Although these old-

er workers enjoy a certain protection from layoffs because of their seniority, when a machine is perfected that can do their job they must go eventually. Both management and labor have recognized this labor displacement as one of the most vexing problems of the years ahead. Many companies have set up retraining programs under joint union-management auspices to ease the transition.

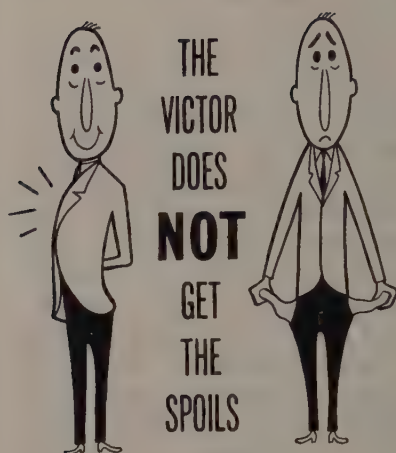
We can see then that the American economic frontier is not without its problems—an equitable distribution of its abundance, the allocation of its resources, the increasing institutionalization of society and the consequences of automation. These problems coupled with a seemingly permanent cold war may become more complex in the decades ahead in which, at the 1950s' average growth rate of three per cent a year, GNP should reach \$725 billion by 1975. The growth rate will be even more rapid, of course, if future governments decide to reallocate larger proportions of our resources to the public sector. ■

Self-service Wholesaling

PROPRIETORS of small grocery stores in Cleveland are doing their shopping in a supermarket wholesale grocery where they realize savings by trundeling their hand-trucks (rather than shopping carts) through the warehouse, picking out cartons to restock their own shelves. After paying at the cashier's booth, they haul the goods to their stores in their own trucks, thereby saving delivery costs as well.

Our debtor-oriented society

by F. Lichtblau and I. Stein



■ "A BAD SETTLEMENT is better than a good lawsuit." This statement has become an axiom among creditors in the United States. The fact that it has become so reflects a certain disillusionment with a legal system which has become increasingly debtor-oriented since the beginning of the 19th century. The time, expense and hazard involved in resorting to legal action in settlement of a claim is, of course, well known. But people are less aware of the fact that the creditor's real difficulties just begin once he has received a favorable judgment. Judgments are not self-enforcing. All too often they prove uncollectible or collectible only after further protracted and costly legal proceedings.

The extent of business mortalities in the last few years indicates that the problem of uncollectible judgments is a serious one. In 1959, for example, more than 14,000 businesses failed with total liabilities of almost \$700 million—liabilities which in large part represent legal judgments awarded to creditors. While there are no figures which give the proportion of these liabilities recovered by creditors, experience in bankruptcy cases indicates that creditors normally receive only about one-tenth of the amount owed them.

The debtor class came into its own with the emergence of modern democracy under the reforming spirit of the liberal age. At the turn of the 19th century, impris-

onment for debt was generally abolished in this country. Since that time the debtor has been favored with a growing number of legal safeguards and exemptions.

Today all states exempt certain property of the debtor from being seized by the creditor seeking to collect his judgment. Generally, such personal items as household furniture, wearing apparel, cooking utensils, working tools and professional equipment are beyond the creditor's reach. So is the debtor's homestead, up to a specified amount which varies from state to state. Moreover, the law usually prevents the creditor from appropriating a debtor's entire income at one time. In New York, for example, only 10 per cent of a debtor's income can be reached by a creditor. The debtor is further protected by the statutory provision common in most jurisdictions which prevents his income from being reached by more than one creditor at a time.

The creditor has, in effect, become an "involuntary good Samaritan," as Roscoe Pound, former Dean of Harvard Law School, so aptly put it.

The statutes do permit a creditor who has obtained a judgment to question the debtor under oath as to the state of his assets. But the sanctions imposed upon a debtor who has perjured himself have been largely ineffective. In the first

place, to initiate contempt-of-court proceedings is a cumbersome process and the courts are exceedingly cautious in imposing the penalty for contempt, which is imprisonment and fine. Even if the penalty is imposed, imprisonment of the debtor does not repay the creditor. And if the judgment is a substantial one, the fine imposed is usually comparatively small.

In addition, a debtor can place his assets beyond the immediate reach of a judgment. One way he can do this is to transfer property to members of his family or some other "straw man." In many cases it is difficult to ascertain whether such a transfer is legitimate or whether it was made deliberately to defraud creditors. Such a case can be decided in court only on the basis of the "intent" of the debtor at the time he entered into the transaction. But intent is difficult to prove. If the transfer of funds takes place about the same time as the initiation of a law suit, it seems quite suspicious. Likewise, if such a transfer is made gratuitously or on an obviously inadequate consideration, there is room for suspicion.

The device of incorporation, normally a legitimate one which gives a businessman certain tax and limited liability advantages, can also be used as a front for various fraudulent schemes. A dishonest debtor can turn his business into a

corporation and then proceed to drain the "corporation's" assets by withdrawing exorbitant sums for "salaries" to nonparticipating members of his family, by charging off numerous personal items as "business expenses" or by selling its property for merely nominal consideration to another corporation controlled by him. When such a corporation fails, it will have few assets which can be applied to satisfy the creditors' claims.

Business failures generally terminate either in federal bankruptcy or state insolvency proceedings. These proceedings result in the distribution of the remaining assets of a bankrupt business proportionately among the various creditors. But since the assets of such a company are rarely able to cover more than a small part of its liabilities, bankruptcy or insolvency proceedings normally result in the debtor's being absolved from a great portion of his obligations. At the same time, the creditor receives only a small portion of his claim. That this situation is of advantage to the debtor can be seen in the fact that debtor-initiated petitions of bankruptcy account for about 80 per cent of total bankruptcy cases.

Dean Pound has questioned not only the validity of the bankruptcy law but also the moral and legal policy of our society which is to "shift every loss no matter how

caused. . .to someone who appears better able to bear it." This state of affairs has negated the sanctity of contract, and has resulted in a breakdown of legal and public morality.

The debtor, of course, cannot and should not be held responsible for crushing debts which he can never hope to repay. But the burden of this sort of loss should not be fixed by the creditor any more than it should be borne by the debtor. It should be borne by society collectively.

Insurance approach

But how can the burden be shifted to society? One approach is through insurance. The states could enact laws requiring businesses to carry liability insurance in much the same way that many states require motorists to carry liability insurance. Thus, if a business failed, all of its outstanding obligations would be paid by its insurance carrier. However, the premium rates necessary to sustain this type of insurance would, no doubt, be prohibitive since it would be extremely difficult for insurance companies to scale the risks. And states enacting such legislation would probably drive business elsewhere. There are, moreover, constitutional problems in applying the law to interstate businesses.

Far more serious would be the

development of an insurance psychology. The danger is that credit would be extended in an indiscriminate and uncontrolled fashion once insurance companies assume the functions of securing judgments and collections. Still, since this type of insurance has never been applied, it is difficult to determine precisely what the advantages or disadvantages of such a system might be.

Credit insurance, which does provide for partial reimbursement of losses due to uncollectible judgments or claims, is now available to businesses other than retailing firms. But this insurance is carried by the creditor and protection is limited to losses above a predetermined sum. Above this sum, the creditor acts as a coinsurer with the insurance company, each bearing a certain percentage of the loss.

A streamlining of legal procedures in the enforcement of judgments would, of course, greatly improve the creditor's chances of collecting. More severe handling of defaulting and perjured debtors would at least instill in the debtor a sense of his obligation. Bankruptcy proceedings could be made less desirable to debtors by various means. For example, the time given a debtor to repay his debts could be extended considerably rather than forgiving the entire obligation. Or attempts could be

made to reasonably reduce the claims of creditors to a point where the debtor could be obliged to pay.

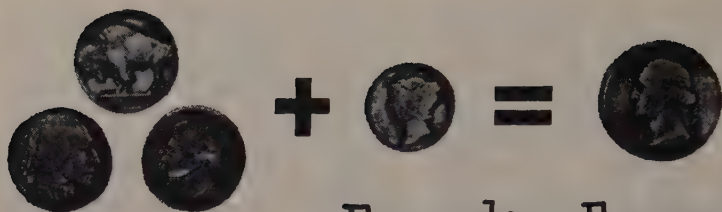
Of course, the most obvious method of reducing the number of unpaid accounts and uncollectible judgments is through more thorough preliminary credit checks and investigations. Frequently the unscrupulous debtor has a bad business and a poor credit record which careful checking would reveal.

Our society has erected a legal system for the recovery of a judgment against a defaulting debtor. Though this system does not always function smoothly or expeditiously, a creditor is at least assured of obtaining a judgment. The real difficulties are encountered in the process of *collecting* the judgment. A generation or two ago in our society an honest man was expected to pay his debts. Today to be legally honest, a man need only say, in effect, "I cannot pay my debts." What the ultimate effect of this situation may be on the "honest man's" judgment, integrity and sense of responsibility should give us cause for concern. ■

Answers to Challenge Quiz

(see page 79)

- (1) True (see page 9)
- (2) True (see page 15)
- (3) True (see page 21)
- (4) True (see page 55)
- (5) False (see page 62)
- (6) False (see page 71)
- (7) False (see page 68)
- (8) True (see page 27)
- (9) True (see page 39)
- (10) True (see page 48)



Everyday Economics

■ MANY PEOPLE wonder how their names are obtained for the abundance of offers they receive in their mailboxes daily.

A firm which acquires your name from whatever legitimate source (telephone or business directories, newspaper announcements, etc.) or from your having filled out a form for a free sample, an inquiry for information, or a purchase through the mail, may decide to rent its list to other reputable direct mail sellers.

The company that rents a mailing list must promise not to copy the names, and pays a fee for each use of the list. Since they are not permitted to check the rented list against their own mailing list or against any other list rented at the same time, duplication is a common occurrence. This explains why you may receive repeated offers for trial subscriptions to magazines you already get.

If you wish to have your name removed from a mailing list, or

to correct your mailing address, mark the request on the order form and mail it to the company who sent the offer. They will know on which list your name appears from the "code" printed on the form or business reply envelope. Your request will be forwarded to the list "owner."

New car?



WHEN purchasing a new car the buyer should keep a complete record of

the costs of putting the car on the road. Several normal operating expenses may be deducted from federal income tax: state, county or municipal sales taxes on the car, its accessories or replacement parts (tires, etc.); annual registration fees (not safety inspection fees or title fees); property tax on the car; state or local gasoline taxes. If the car is damaged or stolen, the costs not reimbursed by the insurance com-

pany are deductible. Summer note: before driving a new car to the beach, coat the chrome work with a layer of wax to prevent salt spray from eating into the metal.

Night life



THE REASON why the costs of a night on the town have been lower recently is the Internal Revenue Service decision to cut the federal cabaret tax in half. Since 1940, when the tax was raised as a war-time measure, the tax has been 20 per cent of the customer's tab. The cabaret tax (now 10 per cent) is levied if an establishment employs a singer or entertainer, or if the customers are permitted to dance.

Hidden danger



A PERSON selling real estate must inform the purchaser of the existence of any concealed dangers which the buyer cannot find after a reasonable inspection of the property. For some time after the sale the seller remains responsible for injuries to third parties (workmen, surveyors, etc.) sent to the property by the purchaser, if the injuries were due to failure by the seller to disclose the existence of concealed hazards. Once the buy-

er has assumed title to the property, the responsibility is his.

Two names?



UNLESS a state statute forbids it, there is no legal reason why a person cannot conduct business under an assumed name. Most states, however, control the use of assumed names and require registration of the name. Failure to register the name not only means loss of the right to file suit against debtors of the firm but is a misdemeanor subject to fine or imprisonment.

Art of giving



GIFTS mailed from abroad to friends or relatives in the United States are not subject to U.S. customs duty if their value is \$10 or under. There is no limit on the number of \$10 gifts that may be received by one person—provided not more than \$10 worth is received on any given day. Remember to label each package “gift enclosed” and to declare its value—for this purpose the *wholesale* value may be declared. If the tourist brings the gifts back himself they become subject to U.S. customs duty because they are not for his personal or household use.—S.T.



The Question of Government Spending. Francis M. Bator. 167 pp. New York: Harper & Bros. \$3.75.

•Readers concerned over the number one domestic issue in the coming elections—the adequacy of public services—should find this factual and lucid book an invaluable guide. Bator, a young economist currently attached to the RAND Corporation in Santa Monica, Calif., examines the record of government spending. While total government purchases of goods and services increased fourfold between 1929 and 1957, non-defense public spending only doubled. On a per capita basis, there has been no increase in total nondefense spending since 1939.

What do these figures mean? Bator's analysis is extremely thoughtful. Most public spending is clearly not a "service" (for example, our farm price support program); by the same token, many public services are also provided by the private sector of the economy. Under what circumstances do we have a choice between private and public services and what criteria should guide us in preferring one economic sector over the other? These are important election-year issues, and the voter should be in a

better position to make up his own mind after he has read Bator's informative book.

* * *

American Communism and Soviet Russia. Theodore Draper. 558 pp. New York: Viking Press. \$8.50.

•This is the fourth book in the series *Communism in American Life* sponsored by the Fund for the Republic. Draper deals with the personalities surrounding the American Communist party during the 1920s. This scholarly and well-written work is obviously the result of painstaking research. The author conducted extensive correspondence and interviews with many of the early leaders of American communism—Jay Lovestone, Earl Browder, James Cannon—who have since broken with the party. Draper had the scholar's job of trying to ascertain the truth about these events 35 years past from published documents, vague recollections and the often conflicting remembrances of the individuals involved. His most difficult job was in determining the precise financial relationship between the American Communist party and the Comintern. Communist documents, of course, claim that there is none. The apostates, on the other hand, tend to exaggerate the dependence

of the party in the U.S. on Soviet funds. The truth, of course, lies somewhere in between. This book and its predecessor, *The Roots of American Communism*, will undoubtedly be the definitive works on the formative period of American communism for many years to come.

* * *

Beyond the Welfare State. Gunnar Myrdal. 287 pp. New Haven: Yale University Press. \$4.50.

•In the United States and other Western democracies, the voter is often confronted with an election-year "issue" of a planned vs. a free economy. To Myrdal, a distinguished Swedish economist and former executive secretary of the United Nations Economic Commission for Europe, this is a bogus issue, since we have no real choice. He believes that a modern economy could not function without planning and that this trend is not endangering democracy as some Cassandras contend, but is actually giving it "wider scope and deeper roots." The view that there is a trend toward an increase in local self-government which will nullify the threat to individual freedom posed by the growth of a central bureaucracy seems a little optimistic. Although some of his conclusions are debatable, Myrdal's always provocative ideas make for stimulating reading.

* * *

People, Problems and Profits: The Uses of Psychology in Management. Saul W. Gellerman. 252 pp. New York: McGraw-Hill. \$5.95.

•An executive who purchases this book with the idea that it will give him the necessary knowledge to tell the company psychologist how to go

about his job will be sorely disappointed. What the book *does* say is that while a psychologist can tell management many things that it already knows (and a few that it may not know), management must, in the final analysis, provide for its own salvation. For the majority who already realize this, there is not much point in reading the book.

* * *

Intelligence and Democratic Action. Frank H. Knight. 177 pp. Cambridge: Harvard University Press. \$3.75.

•More than any other form of social organization, the "open" democratic society depends on the intelligence of individuals. Economic exchange and representative democracy have one thing in common: they both depend on the intelligent choices of free individuals. In this series of lectures, Knight, the leading spokesman for "classical" economics in this country, discusses ways and means of obtaining maximum intelligence and maximum freedom. His conclusion is realistic: "The possibilities of freedom in effectively organized society have sweeping limitations; but accepting these and working intelligently within their bounds, and not too discontentedly, is the price of the residual freedom that is possible, and that is the most precious boon of life."

* * *

Southern Tradition and Regional Progress. William H. Nicholls. 202 pp. Chapel Hill: University of North Carolina Press. \$5.00.

•Why, in spite of remarkable progress, does the South remain our most backward region? A Southerner himself, Nicholls, who is Chairman

of the Economics Department of Vanderbilt University, has spent the last 10 years seeking answers to this question. His conclusion: the South's progress since World War II has been achieved *in spite of* the social, political and psychological traditions of the Old South's cultural heritage. That heritage, with its devotion to essentially agrarian values, its undemocratic political structure and, most important of all, its race problem, remains a formidable barrier to economic progress.

What is required, Nicholls believes, is the courage to face up to the fact that the South cannot have economic progress while retaining the social attitudes of a plantation economy. Nicholls' hardheaded but sympathetic book points up the lesson; it is up to Southern leadership to profit from it.

* * *

The Strategy of Conflict. Thomas C. Schelling. 309 pp. Cambridge: Harvard University Press. \$6.25.

•This original and thought-provoking book is not recommended for readers afraid of a fairly rigorous intellectual workout. But for those not afraid of hard thinking, Schelling (who has a wonderful way with the English language) has ample rewards. The problem he examines with the aid of game theory—effective deterrents in a situation of nuclear stalemate—is *the* problem of our age upon whose “solution” the peace of the world depends.

Schelling is an economist by profession, but one who has thought profoundly about bargaining strategies in all fields, including defense. While primarily a theorist, his book is by no means exclusively theoretical. Indeed, his most important con-

tribution is his illustration of how objective weakness can often provide bargaining strength. Rationality is not always a bargaining strength, as our experience with Hitler shows. Blind pedestrians can intimidate automobile drivers and “weak” neutrals can intimidate “strong” belligerents. How to devise “rational” strategies in an irrational world is, in fact, a problem on whose solution the peace of the world rests.

* * *

Business Comes of Age: The Impact of the Committee for Economic Development, 1942-1960. Karl Schriftgiesser. 236 pp. New York: Harper & Bros. \$4.50.

•This is a fascinating book for anyone who is curious to know how a group of outstanding businessmen and university intellectuals pool their experience and knowledge to provide their country with a dispassionate and factual analysis of every major economic problem facing the government during nearly two decades. The record of CED proposals actually adopted and put to work includes its plans for postwar development, work on the “pay-as-you-go” income tax plan, cooperation on the Marshall Plan, etc.

No less remarkable than its achievements is the Committee's ability to suggest solutions to *both* government and private enterprise. Herbert Stein, research director of the CED, summarized the Committee's work when he said “There is only a body of writing, on various subjects and done at various times, reporting the fruits of discussion that is going on and is expected to continue. These writings are steps in a learning process. None is the Last Word.” ■



Challenge Quiz

How well can you do with this true-false quiz? Test your ability to increase your knowledge through reading. Ten correct answers is Excellent; 9, Good; 8, Average. If you do the quiz *before* reading the articles, 6 correct answers is good. Answers on page 73.

- (1) The growth rate of the U.S. economy since 1953 is two per cent below 1947-53.
True ☐ False ☐
- (2) A firm which supplies the U.S. government with defense material is protected from unwarranted government interference mainly by its right to refuse a government contract.
True ☐ False ☐
- (3) Of all the items in the consumer price index, prices of home furnishings have risen least since 1949.
True ☐ False ☐
- (4) Since 1947, the middleman's share of the retail food dollar has increased by 75 per cent.
True ☐ False ☐
- (5) Today, women workers account for 80 per cent of the part-time labor force.
True ☐ False ☐
- (6) The professional equipment of a bankrupt firm may be seized by its creditors.
True ☐ False ☐
- (7) Only 15 per cent of the U.S. labor force has been organized by trade unions.
True ☐ False ☐
- (8) The drop in private U.S. foreign merchandise trade is more than compensated by the net gain from U.S. overseas investments.
True ☐ False ☐
- (9) Recent Soviet industrial reorganization tends to concentrate top planning authority in fewer hands.
True ☐ False ☐
- (10) The proportion of the total labor force employed in blue-collar jobs in manufacturing, mining and construction has remained relatively unchanged for the past 40 years.
True ☐ False ☐



Insect Warfare: Bugproof socks and gloves so woven that insect's stinger cannot make right-angle necessary to reach and penetrate wearer's skin. . . Efficient outdoor floodlight that attracts and kills flying insects. Light can be run from automobile battery and will not harm humans, pets or birds. . . Insecticide dispenser protects 6,000-cubic-foot enclosed area around the clock by releasing measured amounts of pressurized insecticide every 15 minutes. Unit operates on standard current and is not much larger than a cigar box.

* * *

Around the House: Nonelectric vacuum cleaner and carpet sweeper. As it is pushed back and forth, floor wheels revolve brush and gear system revolves fan at high speed, creating powerful suction stream. Picks up tacks, paper clips, etc., and operates on carpets and all types of floors. Handle of upright sweeper depresses 90 degrees to permit sweeping under furniture. . . Bathroom "towel tree" has adjustable floor to ceiling pole with rigid arms . . . Plastic pitcher with two interchangeable lids: standard closed lid for storing in refrigerator and serving outdoors, and open mouth lid with pouring spout and ice retainer . . . Ironing accessory is combination clothes rack, iron cord minder and electrical outlet. Outlet has six-foot

cord to plug into wall outlet; clothes rack accommodates 12 hangers or ironed garments.

* * *

Outdoor Living: Lounge chair pad contains plastic foam which expands when air valve is opened so that lounge does not have to blow up pad. Cover is waterproof so that pad can be used as swimming pool float . . . Chrome-plated beverage holders clip on to any kind of furniture. Swivel clamp permits them to be turned in any direction. . . Battery-operated roto-roaster has five skewers that turn slowly to cook shish-kabob, frankfurters, etc. Unit fits on top of any outdoor grill.

* * *

The Home Workman: Marker that instantly gives accurate measurements of hard-to-fit irregular contours around baseboards, etc. Marker is pressed against the object to be fitted and sliding aluminum leaves assume shape of the contour and lock into position to make perfect template for laying out work . . . Permanent air filters of polyurethane foam can be trimmed to fit any home air conditioner. May be washed and reinstalled when it becomes dirty. . . Flexible magnet comes in strips that home workman can cut to own specifications.

* * *

Canine World: Dog tether of corkscrew design holds firmly in ground but is easy to remove without tearing up grass or leaving unsightly holes. Swivel eyelet keeps chain from wrapping or tangling. Carrying handle and compact size make it convenient for trips to park or on vacation.

* * *

Write to CHALLENGE magazine for additional information. ■

Challenge

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